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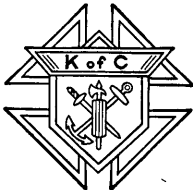
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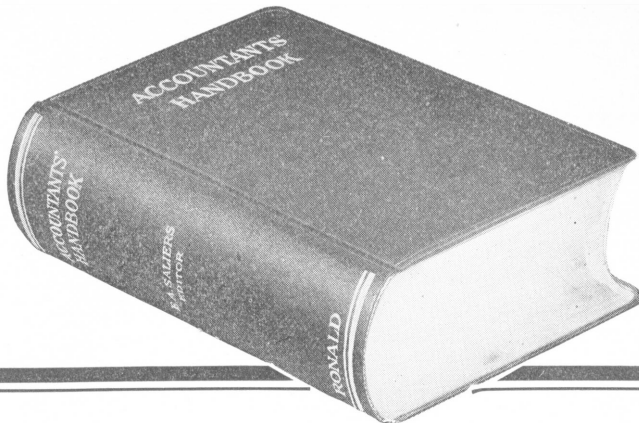
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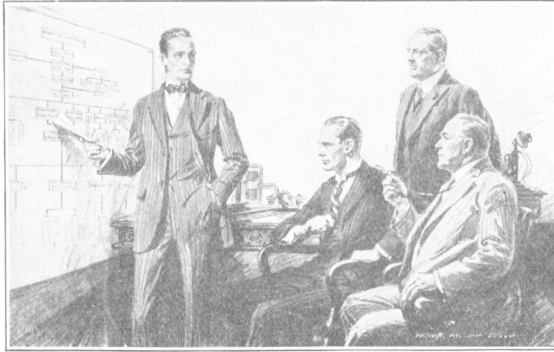
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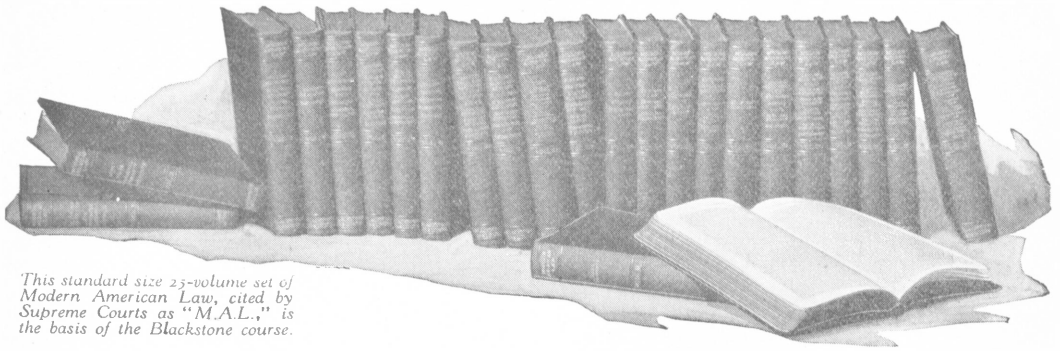


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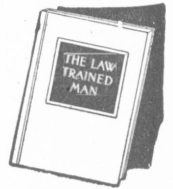
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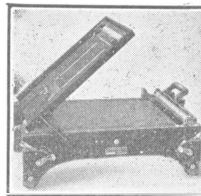
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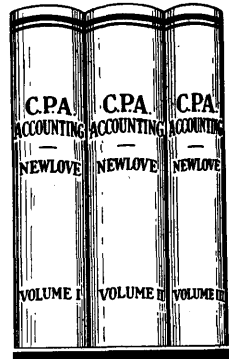
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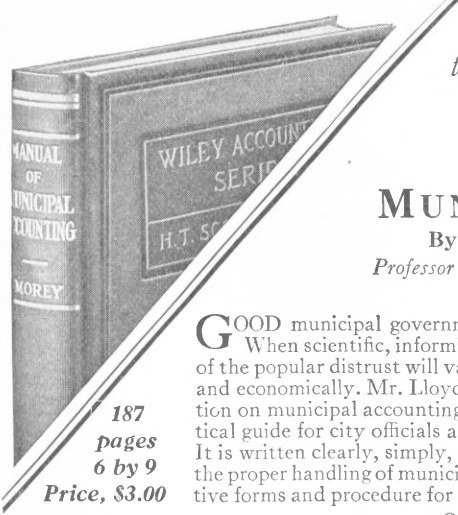
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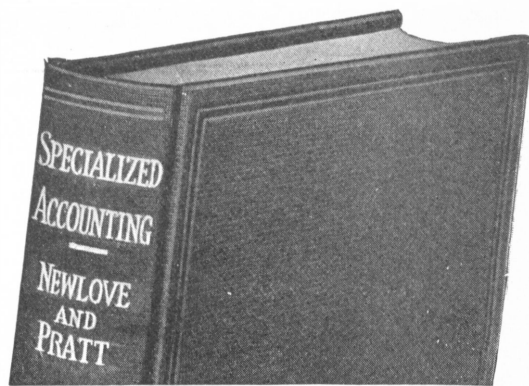


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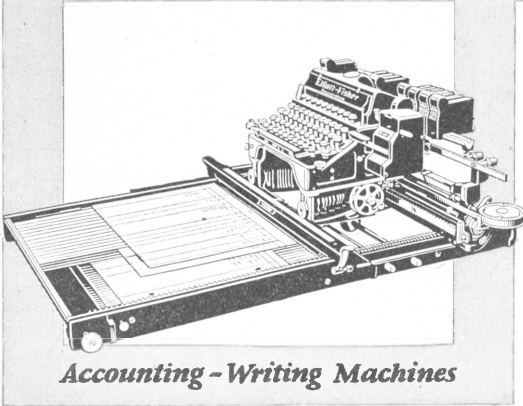
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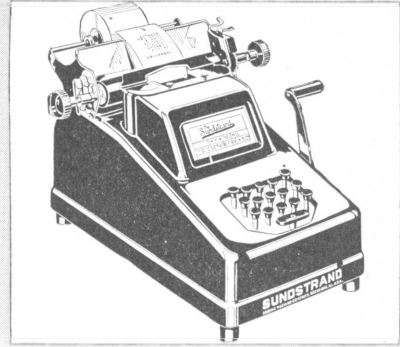
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Organization of the Profession in Pennsylvania*

BY GEORGE WILKINSON

In the January, 1925, number, an historical writer, to whom we shall refer more fully a little later, says, in a signed contribution to THE JOURNAL OF ACCOUNTANCY,

"I have been unable to find, so far, the name of any firm or practitioner who posed as a public accountant prior to that period" (1880-1883).

It becomes, therefore, of more than passing interest to know who the real pioneers of our profession in the United States were, and where and when their efforts materialized. There seems to have been just a quartet of them in the city of Philadelphia. All of them have passed on to their reward.

In a booklet of eighty-seven typewritten pages, nicely bound and distributed to his chosen friends, Mr. T. Edward Ross and those associated with him in the effort, made a contribution of great value to the history of accountancy in Pennsylvania. The occasion for the compilation of this attractive little volume was the celebration of the twenty-fifth anniversary of the Pennsylvania Institute (in 1922).

The book referred to contains articles from the pens of half a dozen of our most valued members: (1) A brief history of the institute by Mr. Robert J. Bennett, secretary of the Pennsylvania Institute; (2) a report of the twenty-fifth anniversary proceedings, by the same writer; (3) half a dozen biographical sketches of certain deceased members, written by individual contributors, and (4) an extremely interesting essay entitled "Musings of a Quarter Century," by Mr. Joseph E. Sterrett.

From the biographical sketches referred to, we learn on very excellent authority who were the first men who offered

* An historical sketch prepared for the thirtieth anniversary of the formation of the Pennsylvania Institute of Certified Public Accountants, held in Philadelphia, June 14, 1927.

their services to the public in the commonwealth of Pennsylvania.

(First) The first person to establish himself as a public accountant in Pennsylvania was the late John W. Francis, who in 1869 ventured forth on untrodden ground, by opening an office as a public accountant in Philadelphia. Mr. Francis was a lovable old gentleman when most of us were boys—forty years ago.

(Second) The late Charles Nixon Vollum came second, when he opened an office as an accountant at 134 South Fourth street, in April, 1875, and sent out a modest bid for business, in the form of an attractive card, hand-written and multiplied photographically, explaining briefly just what he was prepared to do for the public. Mr. Vollum died on October 26, 1911. His name prevails today in the firm name of Vollum & Vollum, certified public accountants.

(Third) The late John Heins began to practise as an accountant in 1877, with an office on the second floor front of a stone-faced building at 235 Dock street, overlooking the original stock exchange which is still standing, now (1927) being used as a produce exchange. This was a very important section of Philadelphia forty years ago. Stephen Girard's old banking house, now standing tenantless, was close by, and the original Penn Mutual Insurance Company's building, where William Penn's life-size statue can still be seen, is on the adjacent corner. Mr. Heins' name still carries prestige for the members of the present firm of John Heins & Co.

(Fourth) The late Lawrence E. Brown opened an office at 430 Walnut street, in 1882. His original office at this address was in one of those old-fashioned but very substantial stone-faced residences with marble steps at the entrance door and an iron hand-rail. With his partners Mr. Brown established an honored name for the firm of Lawrence E. Brown & Co., certified public accountants.

THE FIRST EFFORT TO ORGANIZE IN PENNSYLVANIA

The earliest record that can be found of any effort to organize the profession of the accountant in Pennsylvania seems to be in 1886, when Mr. Francis had several conferences at his office with Messrs. Heins, Vollum and Brown looking to a plan of organization for their mutual protection and benefit. The plan was to organize a society and to seek a charter as an educational insti-

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tution, under Pennsylvania law. The society was to be called "The Chartered Accountants' Institute."

The principal objects of the proposed society were:

"to elevate the standing and advance the interests of public accountants; and to direct attention to the advantages offered by, and the safeguards attending, the auditing and adjusting of books and accounts by persons thoroughly skilled and experienced as public accountants, and of established personal reputation."

It was in December, 1886, that Mr. Edwin Guthrie, F. C. A., of Manchester, who was visiting the city of New York on the business of his firm, accepted Mr. Heins' invitation to visit Philadelphia, with the object of discussing the plan above referred to.

Mr. Heins introduced Mr. Guthrie to the late Mr. John W. Francis and together these three pioneers discussed the Philadelphia plan for a state society.

Mr. Guthrie strongly counselled Mr. Heins and Mr. Francis to use some other name than "chartered accountants," because, he pointed out, it would likely conflict with the use of that title in this country by English and Scottish accountants, visiting the United States on professional business. This loomed as a serious objection, at that time, for the reason that the most important and responsible business entrusted to public accountants in those days was given to visiting British accountants. Further than this Mr. Guthrie, having strongly in mind the success achieved in England by the organization (in 1882) under a royal charter, of the Institute of Chartered Accountants, strongly counseled a nation-wide association, in preference to a state society.

It is not of record that Mr. Guthrie, on the occasion of his visit to Philadelphia, met Mr. Charles N. Vollum, Mr. Lawrence E. Brown, nor Mr. Hyland B. Hayes, who had an office at 110 South third street. Upon returning to New York Mr. Guthrie related to his partner (Mr. James Thornley Anyon) his experience at Philadelphia. It is remembered that he stated he had been able to find but two accountants in the City of Brotherly Love.

GENESIS OF AMERICAN ASSOCIATION

In the January, 1925, number of *THE JOURNAL OF ACCOUNTANCY* there began an interesting, ingenuous and intimately descriptive article by Mr. James Thornley Anyon, chartered accountant and C. P. A., of New York.

In a prefatory note, Mr. Anyon admits that he is "supposed to be the oldest practising accountant in the United States."

Knowing whereof he speaks, permit the present writer to say that unquestionably Mr. Anyon is the dean of our profession.

Mr. Anyon enjoys the further remarkable distinction of having stood at the head of his firm for no less than forty hard-working years. In 1887 Mr. Anyon became the head of the firm of Barrow, Wade, Guthrie & Co., first established in New York in 1883.

In his own intimate and conversational style, Mr. Anyon tells THE JOURNAL readers of his arrival in the city of New York and of his presenting himself at the office of Barrow, Wade, Guthrie & Co., 45 William street, New York, on October 25, 1886.

Also of his strong desire to meet his professional brethren in America—if he could find any. He intimates that his diligent inquiries in that regard disclosed to him “that there were very few persons engaged in the profession—no more than could be counted on the fingers of one hand.”

Mr. Anyon goes right on to say, “There was a firm called Veysey & Veysey with a staff of two or three assistants. . . .” This old firm of Veysey & Veysey, long since out of existence and only a memory in connection with the earliest days of accountancy, was composed of William H. Veysey, an old English gentleman who never foreswore allegiance to Queen Victoria, and his oldest son, Walter H. P. Veysey. The senior partner established himself as a public accountant in New York in 1866, and was, I have always believed, the first practitioner to do so.

Permit the present writer to introduce the three assistants referred to: first, James Nicholas Kelly, who served for many years as treasurer of the New York State Society of Certified Public Accountants; second, George Wilkinson, whose employment with the firm began January 20, 1887, and third, George Johnston, a colored porter and office boy. Some of the earliest meetings of the trustees of the American Association occurred in the office of Veysey & Veysey. The writer well remembers Mr. Anyon (the first secretary) and Mr. James Yalden (the first president) coming to the office of Veysey & Veysey to hold one of those trustee meetings.

Mr. Anyon goes on to write:

“In Philadelphia the late John Heins seemed to be the only representative accountant in public practice.”

This may have been the report which the late Edwin Guthrie had brought back from Philadelphia, just before Christmas forty

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years ago, but it certainly left out of the picture those three stalwarts, John W. Francis, Charles N. Vollum and Lawrence E. Brown, who, as we have seen, had established themselves in Philadelphia as public accountants in 1869, 1875 and 1882 respectively.

Continuing his narrative Mr. Anyon tells how he invited all the accountants he found trace of to a conference in his office in New York, including one man from Boston (a Mr. Rodney McLaughlin).

“On the afternoon in question the gentlemen invited came at the appointed time. There were six or seven present, including Mr. Heins who had purposely traveled from Philadelphia to attend.”

Mr. Edwin Guthrie, F. C. A., of Manchester, England, was invited to take the chair and Mr. James T. Anyon, who also hailed from Lancashire, was elected secretary of the meeting. After a full discussion, it was unanimously resolved, on the motion of Mr. John Heins, that those present form themselves into an association “for the advancement and protection of the interests of their profession.” It was further resolved, and this time on the motion of Mr. J. T. Anyon, that the name of the new society should be “American Association of Public Accountants.”

Thus, on December 23, 1886, was formed the first professional guild of accountants in the United States, with an aggregate membership of less than a dozen.

On the 20th of August, 1887, those charter members of the association who happened to be citizens of the United States joined in signing a certificate of incorporation, expressing therein their desire “to associate themselves for social and benefit purposes.” Mr. Anyon and Mr. Veysey, being unrepentant British subjects, could not join in the petition.

The late Mr. James Yalden of New York was the first president of the association, followed in 1889 by the late John Heins of Philadelphia, who continued in the chair for three years.

Of the eight original signatories to the certificate of incorporation, only two above named remained members of the association after a dozen years. Of the original group of members only three—Mr. J. T. Anyon, Mr. George H. Church and Mr. W. R. Blackman—are alive today.

The principal objects for which the association was created are stated in its articles of incorporation to be:

“to associate into a society or guild for their mutual benefit and advantage the best and most capable public accountants practising in the United

States; and through such association to elevate the profession of public accountants as a whole. . . ."

The charter of the association was finally issued on September 22, 1887. It required that the association's place of business should be in the city of New York. In order to make the membership nice and select, the original by-laws provided that the entrance fee should be an even hundred dollars. In the first year there were thirty-one members. In a dozen years, when the initiation fee had come down to the present popular price of twenty-five dollars, there were sixty fellow members. This latter number included Mr. John Heins and Mr. John W. Francis of Philadelphia, while the present writer was the only member at that time who lived in Chicago.

With the years that follow this history has naught to do, as Philadelphians bore no part of the responsibility. The American Association was virtually, as well as legally, a New York corporation—domiciled in New York and governed by New York accountants.

ORGANIZATION IN PENNSYLVANIA

The first law establishing the professional designation of certified public accountant—C. P. A.—was passed in New York on April 7, 1896, and was approved by the governor of the Empire State a month later. Immediately after this important happening, we find the movement getting under way in the Keystone State. In May, 1896, Mr. J. E. Sterrett sent to certain other Philadelphia accountants, among whom were the late John Heins, Lawrence E. Brown and Charles N. Vollum, copies of the bill just then enacted in New York state and suggested that Pennsylvania should make a move in the same direction. Mr. Francis and Mr. Brown supported the proposition, but Mr. Heins was not in favor of doing any such thing. Nothing was done at that time.

A year later, the New York C. P. A. certificates having come out, an actual start was made in Philadelphia. In a letter dated March 16, 1897, and signed jointly by the late John W. Francis and by J. E. Sterrett, these pioneers wrote their professional brothers:

"We think it wise at this time to ask a few of the leading accountants of this city to discuss the subject and consider the advisability of taking some action along similar lines in our own state. We therefore cordially invite you to an informal meeting, to be held at this office, on Tuesday evening, March 23, 1897, at eight o'clock."

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We have it on good authority that Mr. Sterrett fully measured the difficulty of promulgating such a radical departure in our most conservative city. Obviously it would be an advantage to secure the coöperation of the big, little man at 508 Walnut street, so Mr. Sterrett took the precaution to present personally his letter of invitation to Mr. John Heins, then ex-president of the American Association of Public Accountants. The letter was handed by Mr. Sterrett to Mr. Heins' personal attendant—no less a personage than Robert H. Montgomery—who at once secured a private interview for the missionary. Thus was Mr. Heins won over against his personal prejudice to accept an invitation to the meeting.

At the initial meeting, held as scheduled, there was a sentiment in favor of setting the legislative machinery in motion at Harrisburg, even if failure might result on the first trial. After a general discussion, the meeting was adjourned for a week. At the adjourned meeting, held on March 30, 1897, Mr. John Heins showed up. It was then determined to organize an association of individuals, to be known as the Pennsylvania Association of Public Accountants. Mr. John Heins was elected president and Mr. J. E. Sterrett was elected secretary.

After appointing a committee of two to draft a constitution and set of by-laws for the new association, the meeting got busy with a first effort to secure a law recognizing our profession. After another week's adjournment, the committee brought in its recommendation for a C. P. A. bill.

It should here be noted that while our brothers in Illinois were struggling, early in March at Springfield (the state capital), to secure the passage of a law similar to that enacted in New York, under which it was proposed that the state university at Urbana should hold the examinations, our own association, here in Pennsylvania, acting under legal advice from the late Judge F. Carroll Brewster, was seeking a bill authorizing the supreme court of the state to issue certificates and appoint a board of examiners. The chief justice had expressed his willingness to fall in with this provision of the proposed law.

A committee consisting of Mr. John Heins and Mr. Charles N. Vollum lost no time in getting things started. Bill No. 316 was introduced in the senate on April 8, 1897, by State Senator Brown. The following evening the legislative committee reported to the newly formed association, expressing a confident hope that

the bill would pass the senate within ten days. Alas! The provision in the bill in regard to the state supreme court turned out to be a stumbling block. So much so that the bill failed to pass the senate and had to be abandoned for the 1897 session.

Two years went by.

A meeting of the Pennsylvania Association was held November 30, 1898, at which a new proposal for a C. P. A. bill was discussed. The revised bill, relieved of its supreme court handicap, called for a state board to be appointed by the governor.

C. P. A. LEGISLATION IN PENNSYLVANIA

With the convening of the state legislature in January, 1899, the Pennsylvania Association again got busy with its legislative programme. While Illinois and New Jersey accountants had visited Springfield and Trenton respectively, with like aims in view, and with equal lack of success, Pennsylvania kept in the lead, being second only to New York in actual accomplishment.

The very first bill to be introduced in the house of representatives at Harrisburg, by the Honorable David S. Chew, in the session of 1899, was the association's bill for the establishment of a state board. It was referred at once to the committee on judiciary general and a week later was reported favorably to the house.

The active work of looking after the bill at Harrisburg was placed in the hands of the late Charles N. Vollum, chairman of the executive committee of the Pennsylvania Association, who worked most untiringly to secure the passage of the bill.

In the meantime literature explaining the purpose of the proposed law was extensively circulated by the association. The endorsement of leading business men, of judges and of lawyers was freely given and broadcast. The bill passed the house on March 14th and the senate a week later. It was signed by Governor William A. Stone and became law on March 29, 1899.

This, then, was the second C. P. A. law to be enacted and the first one creating a state board of examiners. It has been largely copied by other states.

And what of the harvest?

The American Institute's year-book for 1926 gives a complete list of the examining boards of all the forty-eight states of the

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union, of the District of Columbia and of Alaska, Hawaii and the Philippine Islands—fifty-two legislative enactments and every one of them establishing the same professional designation—certified public accountant. And in every state but six, the conduct of the examinations rests in the hands of certified public accountants.

CHANGE IN NAME

Following the passage of a C. P. A. law in the commonwealth of Pennsylvania, the attention of our members was at once turned to the desirability of embodying the word “certified” in the name of the association. This object was fully accomplished on October 15, 1900, when the name of the association was changed to Pennsylvania Institute of Certified Public Accountants. Amendments in the constitution and by-laws were made to accord with this change.

PENNSYLVANIA CHARTER SECURED

On the 25th day of April, 1904, the Pennsylvania Institute having grown to be a healthy youth of seven years, our older brothers, of whom a majority have since departed this life, joined in signing a certificate of incorporation.

A month later (May 24, 1904), a charter was issued, under the act of April 15, 1874, signed by a judge of the court of common pleas for the county of Philadelphia and duly recorded by the recorder of deeds. This charter has ever since served the institute as its constitution.

EARLY ACCOUNTANCY EDUCATION

The first formal examination, prescribed by the Pennsylvania C. P. A. law of 1899, was held on November 13, 1899. Three candidates, all of them from Pittsburgh, sat for the written examination: two passed, one failed. Very soon it was realized that there was pressing need, here in the Keystone State, for some sound, dependable course of education in accountancy subjects. The Pennsylvania Institute soon realized that the upbuilding of our calling into a profession must come through education, far more than through legislation. The younger generation must come forward with a better preliminary training than the pioneers had brought to bear. To meet this need, in the summer of 1902, the council of the institute authorized the formation of classes for the study of the four subjects specified in the C. P. A. law.

PENNSYLVANIA NOT FAR BEHIND NEW YORK

Let it not be thought that Pennsylvania was far behind New York in the matter of establishing classes for the training of its young citizens in accountantship. These two principal states moved almost simultaneously in this important development. The accountancy classes conducted at the university building in Manhattan by Dean Joseph French Johnson and his faculty of educators were inaugurated in 1901, under the auspices of the New York State Society of Certified Public Accountants, by its then president, the late Charles Waldo Haskins. Students' evening classes were established here in Philadelphia in September, 1902, under the supervision of the institute's committee on education, with Mr. J. E. Sterrett, as chairman, together with Mr. Adam A. Ross and the late Alfred L. Sellers, as secretary. These classes were organized primarily for the purpose of affording technical instruction to assistants engaged in the offices of members of the institute. The restriction was not strictly enforced, because each member of the institute had the privilege of nominating, from outside of his office, a student who wanted to become a practising accountant—may be.

The fee for the full course was set at ten dollars, payable in two equal instalments. To supplement the fund thus collected from the students, the institute appropriated a hundred dollars from its treasury. Volunteer instructors were enrolled from among the leading members of the institute, the classes being held during the evenings in the offices of their respective firms. The subjects taken up and the instructors lecturing thereupon were:

| | |
|-----------------------|------------------|
| Theory of accounts, | R. H. Montgomery |
| Practical accounting, | W. M. Lybrand |
| Auditing, | J. W. Fernley |
| Commercial law, | H. G. Stockwell |

PIONEER EDUCATIONAL WORK IN PENNSYLVANIA

The actual work of these evening classes began October 20, 1902, and continued through that winter and the next. Hours, eight to ten. Two subjects each evening. This educational work, like all pioneer efforts, was not without its difficulties. The instructors had not at that early date acquired much facility as lecturers, but what they lacked in experience they made up in enthusiasm and perseverance. On the other hand, the students presented some unforeseen difficulties, due to their varying ages

and their more varying experience. But as these students, though comparatively few in number, were prompted by a keen desire to better their educational equipment and were devoting their leisure to these studies of their own volition, good progress was made from the beginning.

At the end of the first winter's work, the chairman of the committee made a favorable report to the council of the institute, in which it was intimated that the work would be continued the next winter, with the same four instructors. The second season's work was even more successful and the movement gathered impetus.

When the institute's committee on education came to make its second annual report on this work, it wrote, referring to the instructors:

"These gentlemen have given generously of their time and energy, in carrying forward this important department of the institute's work. Their names constitute a roll of honor as the teaching staff of the first school of higher accounting to be established in this state."

EDUCATIONAL CLASSES TURNED OVER TO UNIVERSITY
OF PENNSYLVANIA

By the spring of 1904 negotiations had been successfully carried out, with the faculty of the Wharton School of Accounts and Finance and with the trustees of the University of Pennsylvania, under which the educational classes, so successfully inaugurated by the Pennsylvania Institute, were turned over to the university as a going concern. Subsequent to that date this important educational work has been carried on, as part of the regular curriculum of the university, to the upbuilding of our profession in this state.

Dr. Edward Sherwood Mead was appointed director of the Wharton School of Accounts and Finance and bestowed a great deal of zeal thereupon. The real active operation of the university evening classes began on the evening of the 30th of September, 1904, when Herbert G. Stockwell, attorney at law and C. P. A. of Pennsylvania, was placed in charge of the classes in advanced accounting for the first year of the new school.

But it was our good friend Dr. Edward Preston Moxey who assumed, and who has maintained, the major burden of the work, being in charge of the accounting classes. Ever since then and up to this day, Dr. Moxey, still a young man, has carried on this work—twenty-three years.

When the institute's evening accountancy classes were ceded to the Wharton school, certain members of the institute undertook to guarantee the expenses of conducting the classes—advertising, light, heat, janitor services and the like—for the first winter season, but the guarantors were never called on for any money.

PLAN FOR THE FEDERATION FIRST PRESENTED TO PENNSYLVANIA

In the autumn of 1902, when Pennsylvania was in the throes of inaugurating students' evening classes, a missionary from the west arrived in Philadelphia and was invited to establish his quarters in the offices of a firm of accountants in the Stephen Girard building, on Twelfth street. This person explained that he had lately been elected president of the Illinois Association of Public Accountants; that a special committee of that association had been authorized to consult the several existing state societies as to forming a national body of professional accountants. The name proposed by the Illinois Association was "The Federation of Accountants."

Provided the brethren in the City of Brotherly Love endorsed the plan, the missionary from the west would carry on; would visit Baltimore and Boston. Indeed, he hoped to muster courage enough to invade Manhattan.

An informal evening meeting of the institute was held and the president of the Illinois Association was given an opportunity to explain his plans, which were summarized thus:

"to link the several existing state societies together, under one control, for mutual protection and advantage; to promote additional state societies of public accountants; to encourage uniform state C. P. A. legislation; and ultimately to secure recognition from the federal government."

It was pointed out that accountants practising in the west did not feel that the old-established American Association of Public Accountants, domiciled as it was in New York and governed by a New York board, was fulfilling its avowed calling as a national institute.

THE FEDERATION IDEA ACCEPTED BY PENNSYLVANIA

Being always ready to support a movement for the betterment of the profession, the Philadelphians endorsed the plan of federating the existing societies and promised to send delegates to the forthcoming convention at Washington. In due course official action of the institute was taken and two delegates were appointed—Mr. Robert H. Montgomery and the late Mr. A. R. Barrett.

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The first convention was held at the New Willard Hotel in Washington on October 28, 1902, and was an immediate success. Many practitioners had prophesied that nothing formative could be accomplished at the first convention. The scoffers were surprised to find that what they expected would take two or three meetings was accomplished in one day. Permanent officers were elected, constitution and by-laws were adopted and the whole work was completed. The business which took the most time was naming the infant. All the delegates present wanted to participate in the christening, and not merely as spectators. Each group added something to the name, until in the end the poor baby was overburdened with the following: The Federation of Societies of Public Accountants in the United States of America.

At a meeting of the Pennsylvania Institute, held on November 25, 1902, resolutions were passed that the Pennsylvania Institute become a member of the federation.

At each of the following annual conventions of the federation and of the meetings of its directors, Pennsylvania was always represented and took an active part in the work.

At the succeeding annual conventions of the federation, in 1903 and 1904, it was established that

“The several state societies of accountants, without forfeiting any of their sovereign powers, in their own states, could work, hand in hand, under one executive, in all matters related to the Washington government, both legislative and executive branches. Hand in hand for the common good of all.”

As it turned out, the life of the federation was disproportionate to the length of its name. It can not be doubted, however, that while its name was dropped after its second year, the good work it accomplished has not been lost to the profession. Through the work of the federation, from 1902 to 1905, the principle was firmly established that the interests of the profession demanded and that the members of the profession would support a national organization of accountants.

THE CONGRESS OF ACCOUNTANTS AND THE PENNSYLVANIA INSTITUTE

At the annual banquet of the Pennsylvania Institute, held at the Hotel Bellevue on May 27, 1904, one of the guests was the secretary of the Federation of Societies of Public Accountants, who had been invited by the toastmaster of the occasion—Mr. William M. Lybrand—to speak in regard to the proposed congress of

accountants, to be held under the auspices of the Louisiana Purchase Exposition, at St. Louis, in the following September. After narrating something of his recent visit to St. Louis, and after describing some of the architectural beauties of the exposition buildings and the scope of the exposition, the secretary of the federation said:

"The official bulletin of the exposition company announces there will be held on the fair grounds—"International congresses of learned men from everywhere." This is where we come in! The executive committee of the federation has authorized the announcement of a programme for a congress of professional accountants, to be held in the Hall of Congress, in the fair grounds, during the last week of September."

After enumerating the several states where associations of accountants had been organized, each one of which was expected to contribute some members of the congress, and after telling of the arrangements already made by the committee on arrangements, the secretary went on:

"Other professions, the most dignified and learned, have held national congresses, but this will be the first national meeting of professional accountants ever held in the United States of America.

"The Pennsylvania Institute has stood out most prominently in encouraging the federation, from the very inception, and has been conspicuous in good works, on its own account. . . ."

The secretary concluded a long address by extending, on behalf of the federation, a most cordial invitation to the members of the Pennsylvania Institute to attend the congress of accountants at St. Louis, in September, 1904. That the invitation was enthusiastically accepted was shown by the outcome. Four members of the Pennsylvania Institute took a prominent part on the committee on arrangements for the congress and themselves contributed greatly to the success of the conference. These were Messrs. William M. Lybrand, Robert H. Montgomery, Joseph E. Sterrett and Charles N. Vollum.

The contribution of the Pennsylvania Institute to the success of the congress was notable. Mr. J. E. Sterrett was elected permanent chairman of the congress of accountants.

Chairman Sterrett's opening address to the members of the congress of accountants gave a vivid insight, as well as an accurate history, of what had been accomplished, up to that date, on behalf of the profession of the public accountant in America. This address, appearing in full in the official record of the congress, makes most interesting reading today.

A valuable contribution to the literature of our profession was the paper read by Robert H. Montgomery, one of the delegates

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from Pennsylvania, recommending uniform practice in the accounts of public-service corporations.

Another special feature of the congress was a cash prize given for the best essay on the mode of conducting an audit, to be written and read at the congress by a clerk regularly employed on a salary by a public accountant firm. The prize was won by Mr. Walter A. Staub, then of Philadelphia, whose treatise is considered a valuable and permanent contribution.

BRITISH AND CANADIAN SOCIETIES AT THE CONGRESS

Mr. Francis William Pixley, F. C. A. of London, barrister-at-law, fellow and past president, represented the Institute of Chartered Accountants in England and Wales.

Mr. James Martin, F. S. A. A., of London, for many years its secretary, represented the Society of Accountants and Auditors, Incorporated.

The several Canadian accountancy organizations were each represented by delegates chosen from among their own members.

It is within the scope of this historical sketch to follow the development of the national organization, for the reason that the Pennsylvania Institute has always played a prominent and well considered part in such development.

At a regular meeting of the American Association of Public Accountants, held on January 10, 1905, in the city of New York, the constitution and by-laws of the association were amended so as to

- (1) Take into membership, as society fellows, the entire membership of the several societies and associations in the federation.
- (2) Adopt substantially the form of government of the federation.

In this way the two rival organizations were merged. The name of the association was retained, the essential structure of the federation was maintained.

By proper action of its council, and of its members, taken on April 17, 1905, the entire membership of the Pennsylvania Institute became society members in the American Association of Public Accountants, from October 1, 1905. The Federation of Societies of Public Accountants came to an end. It is a pleasant memory to many of us. It served a useful purpose.

At the annual meeting of the reformed national association, held at the Hotel Astor in New York on October 17, 1905, separate societies came bodily into the American Association from the following states: New York, New Jersey, Pennsylvania, Ohio, Illinois, Maryland, Tennessee, Minnesota, California, Massachusetts, Missouri, Washington, Colorado, Georgia and Michigan. At the meeting in question every one of these states was represented by delegates, bearing credentials from their respective societies.

This reformed national body continued from 1905 to 1916 inclusive. During that period the great majority of the members continued to carry their membership in the national body through their respective state societies. These society members attended the annual meetings of the American Association, at the hands of their respective delegates annually elected to that duty.

PITTSBURGH BRANCH OF THE PENNSYLVANIA INSTITUTE

On November 25, 1913, our professional brothers in Pittsburgh, taking advantage of a permissive regulation in the by-laws at that time, held a meeting to organize a Pittsburgh branch of the Pennsylvania Institute. Membership of the branch was to be restricted to members of the institute residing, or doing business, in Pittsburgh. The council of the institute duly received a formal application from the new Pittsburgh branch, for approval by the institute, under the then existing by-laws, and on January 22, 1914, the application was approved.

This Pittsburgh branch, which seems to have lasted about a year, had little more than a nominal existence, largely because of the small membership. Its passing left the western part of the state, as before, without any local organization.

THE PENNSYLVANIA DOOR THROWN OPEN

On June 4, 1915, Governor Brumbaugh affixed his signature to an amendment of the Pennsylvania C. P. A. law, under which discretion was given to the board of examiners to recommend for certificates, without written examination, certified public accountants of other states, who had been in practice five years, and who established bona-fide offices in Pennsylvania.

This provision of law opened the door to a large number of certified public accountants of other states to active membership in our Pennsylvania Institute. Particularly was this felt in the western part of the state, where many accountants had estab-

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lished themselves and sought to use C. P. A. titles secured from other states.

NEED OF A LOCAL SOCIETY IN PITTSBURGH

In the spring of 1915, several Pittsburgh accountants got together in an effort to form an independent local organization to represent the profession in the western part of the state. This movement crystallized in a meeting to organize a new body to be called the "Accountants' Society of Western Pennsylvania," whose membership should be open alike to certified public accountants of any state and to non-certified men. This proposal was regarded by the council of the institute as inimical to the welfare of our profession. The president of the institute, Mr. Herbert G. Stockwell, counseled more thought and discussion. Further committee work ensued. Finally the proposed western society came to naught.

LOCAL CHAPTERS AUTHORIZED

In the summer of 1915—a dozen years ago—the institute's committee on by-laws struggled earnestly with proposed amendments to the by-laws to bring about a division of the membership east and west—a chapter in Philadelphia and a chapter in Pittsburgh. Under this 1915 proposal the membership was to be widened to take in as chapter members men who were not eligible as members of the Pennsylvania Institute. After a great deal of work and discussion this proposition was submitted to a meeting of the institute on January 17, 1916, and was disapproved.

After another year's time, namely on January 15, 1917, the by-laws of the institute were amended and our present article IX on local chapters was adopted. This ten-year-old by-law provides a method for the formation of local chapters within the membership of the Pennsylvania Institute, wherever a nucleus of seven members is grouped.

PRESENT PITTSBURGH CHAPTER

Five years after this provision for local chapters had been worked out and adopted, the first such chapter was organized—in Pittsburgh—on April 13, 1922. And a flourishing organization it has become, suitable to the progressive city and district it serves. The chapter elects its own executive officers: chairman, treasurer and secretary, and its own governing body called the executive committee. The chapter makes its own by-laws, subject to approval by the council, and is in undisputed charge of its own field,

its own policy, its own finances and its own meetings. Such matters as relate to the enforcement of the C. P. A. law, to state or federal legislation and to intercourse with other state societies remain the province of the Pennsylvania Institute—the state society—whose council carries on as heretofore.

PHILADELPHIA CHAPTER

Up to last spring the members of the institute residing in the eastern part of the state and those outside of the state had contented themselves with the old order, under which the institute held quarterly stated business meetings and monthly meetings of its members during the winter season for the reading of papers on subjects of professional interest followed by discussion thereupon. These meetings have been attended by a fair number of Philadelphians.

It was inevitable that a feeling should grow up among those who had affiliated with the Pittsburgh chapter, that they had been relegated into a subordinate body while the Philadelphians had held together the institute itself.

At the annual meeting of the Pennsylvania Institute, held in Philadelphia, April 20, 1925, Mr. Frank Wilbur Main of Pittsburgh, a member of the state board of examiners, brought fraternal greetings to the institute from the Pittsburgh chapter, and told of the success of its work in the western part of the state and of its weekly luncheon meetings with discussions. In the course of his remarks Mr. Main brought forward the suggestion that there should be a rearrangement of the by-laws of the institute to provide for chapters in various sections of the state, including Philadelphia and Pittsburgh. Mr. Main expressed his belief that the day was not far distant when additional chapters would be organized in Harrisburg, Wilkes-Barre and Scranton.

It remained for Gardner W. Kimball, while vice-president of the institute and chairman of its meetings committee, to carry out the plan. After a further revision of the by-laws, on April 7, 1927, five years after Pittsburgh had stepped out on its own, the Philadelphians organized a chapter of their own, leaving the institute—the parent organization—in charge of state-wide matters in the commonwealth of Pennsylvania, with but one meeting of members each year.

At the present writing seventy-one members of the institute are definitely affiliated with the Pittsburgh chapter while one hun-

dred and eighty-nine belong to the Philadelphia chapter. This leaves a small minority of members of the institute who have not denoted their wish to belong to either chapter and are therefore members at large. These can fraternize annually if they attend the annual meeting of the institute.

Under the latest amendment to the by-laws the officers and council governing the affairs of the Pennsylvania Institute are distributed as between the two chapters approximately on the basis of membership—east and west. This year the president of the institute is a Philadelphian while the vice-president resides in Pittsburgh. It has been arranged that the next annual meeting shall be held at Bedford Springs, near Pittsburgh. The Pittsburgh chapter will then have the right to put forward a member of its own for president, while the Philadelphians will have to content themselves with the vice-presidency.

ENFORCEMENT OF THE C. P. A. LAW

As previously intimated, it remains the province of the Pennsylvania Institute to police the state, in an effort to enforce the C. P. A. law.

Since the enactment of June 4, 1915, previously referred to, under which an accountant registered as certified public accountant in another state, after establishing residence or office in Pennsylvania, may, at the discretion of the board of examiners, be granted a C. P. A. certificate by the governor of the commonwealth, no others are permitted to use the C. P. A. designation in Pennsylvania.

This has proved a very wise provision as it definitely limits the use of the C. P. A. designation within the commonwealth to those who hold certificates signed by the governor. Formerly an alien C. P. A. was permitted to use his imported title by simply designating, by initials, the state from which he had received a certificate. There have, of course, been several infringements, but these have been so adroitly handled by the institute's most competent secretary that there has so far been no necessity to bring any one to trial before the courts.

The Pennsylvania Institute of Certified Public Accountants, as the state society, will carry on with its policy of maintaining a high standard of professional conduct and through the medium of its council and its committees to advance the interests of the profession throughout the commonwealth of Pennsylvania.

Single-Entry, the Business Man's Language

BY MAURICE E. PELOUBET

There is much public misunderstanding of published and other financial statements. The attitude is either, "This is too deep for me; all I can see is that the company made a lot of money and didn't (or did) pay a dividend," or the public will take what it believes to be a sane, common-sense view of the accountant's technicalities and proceed to draw the wildest and most unwarranted inferences from the accounts presented. This is not only the case with stockholders and other readers of the accounts in private conversation, but even financial writers in responsible journals fall into similar errors.

Some of these conclusions and inferences frequently heard—the list could be extended by any accountant in practice—are:

"The company's profits would be bigger if they had not invested their earnings in fixed assets."

"Dividends for the year were paid out of previously earned surplus."

"The contingency reserve was found to be excessive. Therefore an extra dividend was declared from it."

"The company has a large surplus but has distributed little to the common stockholders."

"Where is the cash for this surplus? If there isn't cash the surplus is a mere bookkeeping figure."

Statements like the foregoing, all of which illustrate the disregard of non sequitur, may be met with everyday in corporation reports, newspaper comment on corporation statements and the conversation of successful business men. It is easy to dismiss them with a superior smile as the expressions of ignorance. The trained accountant can see the fallacy in each particular statement and could probably, if he were present, explain it satisfactorily.

The mere ability to do this, however, seems hardly sufficient. The accountant can not follow his statements about to explain them. They should, but often unfortunately do not, explain themselves. Now this may be because there is something to be explained on each statement or because there is some fundamental principle or concept on which the minds of the accountant and the reviewer are at variance.

It is fairly plain that the fallacy in each statement is due to a misunderstanding of the principles of double-entry bookkeeping. The accountant, by long training, is taught to think in terms of double-entry. That is, of course, a truism. Its corollary, however, that the business man habitually thinks in terms of single-entry, seems not to be recognized at all, either by business men themselves, who have been thinking in single-entry all their lives, much as Monsieur Jourdain spoke prose all his life, without knowing it, or by the accountants who should have realized it consciously, as they do now to some extent gropingly and unconsciously.

The distinguishing characteristic and fundamental principle of single-entry is that it deals solely with values, and with these only as affected by completed transactions or expenditures actually made. The element of profit or loss, as an abstract analytical representation, has no place in single-entry. The net result of the operations of a period is merely an increase or decrease in values at the disposal of the proprietor.

Crude and unscientific as this may seem, it is entitled to great weight for two reasons: first, whether we like it or not, the average man does think in those terms and, second, some facts and some phases or points of view about an enterprise are clearly brought out by an application of single-entry principles, which could only with the greatest difficulty, if at all, be stated on a double-entry basis.

Double-entry, on the other hand, deals not only with values as affected by completed transactions or actual expenditures but also records an abstract, causal representation or reflection of any transaction involving an increase or diminution of the values at the disposal of the proprietor. There are also two other types of action recorded by double-entry, even more abstract and elusive than the foregoing, in which the entire entry, debit and credit, is a representation and a reflection. One type is an expression of opinion, the other a declaration of purpose or intent.

Those of the first type, which create what are variously known as operating reserves, valuation accounts or, specifically, reserve for depreciation, reserve for depletion, reserve for bad and doubtful debts, are simply a statement that those controlling the financial and operating policy think, on as good evidence as is available, that the assets in question have declined in value to the extent shown by the amount of the reserve; this decline, however, has not yet affected the cash.

The usefulness and worth of these valuation accounts should not in any way be minimized. Their correct treatment is a prerequisite to any complete statement of the affairs of an enterprise. On the other hand, confusion and misapprehension are avoided if their essential characteristics of representation, estimate and opinion are borne in mind.

The second type is sometimes referred to as true reserves or segregations of surplus. Reserve for equalization of dividends, reserves for contingencies (unspecified), reserve for rehabilitation, reserve for extension of plant facilities and other so-called reserves with even more fanciful titles come under this head. Their principal characteristic is that they are set aside not as an estimate of the effect of some past occurrence but as the expression of what it is intended to do in the future with present resources. These entries are abstractions pure and simple and have no relation to any current facts which may properly be treated within the bounds of sound and correct accounting theory or practice. The extremely hypothetical and abstract nature of such reserves may be seen in the following example:

Balance-sheet, December 31, 1920

"A"

| | | | |
|---------------------|----------------|-----------------------|----------------|
| Fixed assets..... | \$1,000,000.00 | Capital stock..... | \$1,000,000.00 |
| Current assets..... | 3,000,000.00 | Current liabilities.. | 1,500,000.00 |
| | | Surplus..... | 1,500,000.00 |
| | \$4,000,000.00 | | \$4,000,000.00 |

The directors order the bookkeeper to set up a reserve for rehabilitation of plant and structures of \$1,000,000. The balance-sheet then shows:

"B"

| | | | |
|---------------------|----------------|---|----------------|
| Fixed assets..... | \$1,000,000.00 | Capital stock..... | \$1,000,000.00 |
| Current assets..... | 3,000,000.00 | Current liabilities.. | 1,500,000.00 |
| | | Reserve for rehabilitation of plant and structures... | 1,000,000.00 |
| | | Surplus..... | 500,000.00 |
| | \$4,000,000.00 | | \$4,000,000.00 |

In the two balance-sheets it is assumed that the fixed assets were purchased with the proceeds of the stock and that there was one dollar of cash assets represented by every dollar of surplus.

Single-Entry, The Business Man's Language

In balance-sheet "B" each dollar of reserve represented a dollar of cash assets.

At December 31, 1925, the balance-sheet was as follows:

| | | | |
|---------------------|-----------------------|---|-----------------------|
| Fixed assets..... | \$6,000,000.00 | Capital stock..... | \$1,000,000.00 |
| Current assets..... | 1,500,000.00 | Current liabilities.. | 1,250,000.00 |
| | | Reserve for depreci- ation..... | 2,000,000.00 |
| | | Reserve for rehabil- itation of plant and structures... | 1,000,000.00 |
| | | Surplus..... | 2,250,000.00 |
| | <u>\$7,500,000.00</u> | | <u>\$7,500,000.00</u> |

At a meeting early in January the president of the company said to the board of directors, "Well, gentlemen, in 1920 we reserved \$1,000,000 for plant extension which we haven't touched. You all know the results of our experimental work with our new process and I move, in view of that, that the \$1,000,000 reserve be appropriated for an addition to the East Plant to manufacture on a commercial basis."

The president was a man of vision and energy but no accountant. As he sat down an elderly director arose and said, "I presume the board is aware we will have to borrow to carry out such a programme."

The president looked puzzled. A buzz of conversation started up through the board room. Finally the president rapped for order.

"Gentlemen," he said, "I can not understand why, if we have reserved \$1,000,000 for extension of plant we must borrow to spend it. If I reserve money to pay off a mortgage on my house I have it when the mortgage is due. I don't reserve it and spend it at the same time. I am going to ask the bookkeeper to clear this up."

When the bookkeeper appeared the president said:

"Mr. Jenkins, we have a reserve for plant extension of \$1,000,000 on our books, have we not?"

"Yes, sir."

"Have we more than \$1,000,000 cash?"

"No, sir, only about \$750,000."

"Well, we have accounts due for how much?"

"About \$250,000, sir."

"We could raise \$1,000,000 in thirty days then?"

"I don't think so."

"Why not?"

"Well, you see by the time we collect the \$250,000 we'll pay out \$200,000 payroll and we have material bills and city taxes—"

"Yes, I suppose so."

"Perhaps Mr. Jones, the accountant, who is here making the audit, could make things clearer."

"He couldn't make them less so. Send him in."

The bookkeeper, who was by this time nearly out of his depth, retired, greatly relieved to shift the burden of clearing up the president's ideas to the accountant.

When Mr. Jones appeared the president said, "We would like a little explanation of our balance-sheets for the last few years. We have a reserve for plant extension on our books of \$1,000,000. Yet I am told that we must borrow in order to put \$1,000,000 into plant extension. Can that be true?"

"It is true. That reserve was set up in 1920. Since then you have invested \$5,000,000 in plant and equipment and have occasionally cramped yourself financially to do it."

"Yes, I know that, of course. But my point is, we haven't used up that reserve. It is still on the books at its original amount."

"Certainly, but in 1920 it represented cash. Now it represents investment in plant."

"I see. The account is just the same as it was yet it is totally different now. The same entry in 1920 that meant, 'Go ahead and spend a million' means in 1925, 'Try and get it from the bank!' It beats me."

"I don't think you understand—"

"I *know* I don't but do you?"

"Yes, and if I put it another way I believe you will."

Mr. Jones then prepared and submitted to the board the following:

| Flow of cash during past five years | |
|---|-----------------|
| Cash December 31, 1920..... | \$2,000,000.00 |
| Inventories and accounts receivable December 31, 1920, realized in cash..... | 1,000,000.00 |
| Received from customers 1921 to 1925..... | 13,000,000.00 |
| Total cash available, December 31, 1920, to December 31, 1925..... | \$16,000,000.00 |
| Paid on December 31, 1920, accounts payable..... | \$1,500,000.00 |
| Paid out for materials, wages and expenses, 1921 to 1925..... | 8,500,000.00 |

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| | |
|---|-----------------|
| Paid out for new equipment, 1921 to 1925 | \$5,000,000.00 |
| Dividends, 1921 to 1925 | 250,000.00 |
| <hr/> | |
| Total cash disbursed, December 31, 1920, to December 31, 1925 | \$15,250,000.00 |
| <hr/> | |
| Cash December 31, 1925 | \$750,000.00 |
| <hr/> | |
| Assets at close of five-year period | |
| December 31, 1925 | |
| Cash | \$750,000.00 |
| Accounts receivable | 250,000.00 |
| Inventories | 500,000.00 |
| Plant before depreciation | 6,000,000.00 |
| <hr/> | |
| Accounts payable | \$1,250,000.00 |
| <hr/> | |
| Net assets, December 31, 1925 | \$6,250,000.00 |
| <hr/> | |
| Represented by: | |
| Reserve for depreciation | \$2,000,000.00 |
| Reserve for rehabilitation of plant and structures | 1,000,000.00 |
| Surplus | 2,250,000.00 |
| Capital stock | 1,000,000.00 |
| <hr/> | |
| \$6,250,000.00 | |
| <hr/> | |
| Five years' earnings used chiefly to increase the assets | |
| Increase in assets equivalent to net cash income: | |
| Net assets, December 31, 1925 | \$6,250,000.00 |
| December 31, 1920 | 2,500,000.00 |
| <hr/> | |
| \$3,750,000.00 | |
| <i>Add:</i> Dividends paid | 250,000.00 |
| <hr/> | |
| Cash income, 1921-1925 | \$4,000,000.00 |
| Deduct depreciation | 2,000,000.00 |
| <hr/> | |
| Net income, 1921-1925 | \$2,000,000.00 |
| <hr/> | |
| Proof of earnings—five years | |
| Surplus December 31, 1920 | \$1,500,000.00 |
| Deduct reserve for rehabilitation of plant and structures | 1,000,000.00 |
| <hr/> | |
| \$500,000.00 | |
| <i>Add:</i> Net income | 2,000,000.00 |
| <hr/> | |
| \$2,500,000.00 | |
| <i>Deduct:</i> dividends paid | 250,000.00 |
| <hr/> | |
| Surplus December 31, 1925 | \$2,250,000.00 |
| <hr/> | |

After the president had looked over these statements he said:

"Well, I can certainly see now that we put the money we received from our customers into the plant and didn't give the stockholders much, and of course we can't build the East Plant

extension without a loan. But when will that reserve for plant extension get off the books?"

"Whenever you like. It didn't mean anything when it was set up and doesn't now."

"All right, let's wipe it out and do the same with the depreciation reserve."

"We can hardly do that with the depreciation reserve because that represents an estimate of wear and tear already suffered."

"But we haven't any money for that, either."

"Quite true, and it ought to be your policy to provide money for replacing depreciated plant from now on."

"I believe I begin to see now that reserves and surpluses don't give us any money, Mr. Jones. Suppose you let us have statements like these you have prepared with every report. I'll use them and let the bookkeeper have the others."

There is no doubt that the accountant cleared up things for the president by reducing his accounts to a basis of single entry. He first eliminated all concepts and terms peculiar to double-entry and dealt only with facts, later introducing estimates and abstractions to reconcile the recital of facts with his double-entry statements based on facts and opinion.

It is of course equally clear that he could probably have done it only from a set of double-entry books. It is not suggested that single-entry is a desirable system by which to record complicated transactions, but the careful study of its philosophy and principles is recommended as a sort of mental purgative or stimulant when the mind becomes either hopelessly muddled and befogged through the intermingling of fact, estimate, opinion, abstract reflection or intention, which are expressed with such confusing facility and similarity by double-entry, or when, through years of use and familiarity it becomes increasingly difficult to dissociate the reflection and the fact, the representation and the value, and put oneself in the place of an uninstructed but clear-thinking layman.

No change in the usual form of accounts is suggested, although supplementary single-entry statements are frequently useful. What would help, however, is straighter and more logical thinking by accountants as an aid to clearer expression.

Let us remember that surplus, reserves, profits, provision for depreciation and all similar terms are abstract representations. They are useful to the accountant but almost meaningless to the business man. The business man knows values: property, cash,

Single-Entry, The Business Man's Language

what is owed him, what he owes, what he spends for material and wages and all the concrete facts of industry. Accountants know his language, although many appear to think it beneath them to speak it. Whether it would be desirable or not, the business man does not know and will not learn the accountant's language any more than he will the technicalities of any other profession. Therefore, the accountant must talk to his clients in the language they know and understand. It is hoped that this has been demonstrated to be single entry.

Some Difficulties in Practice

By A. J. LYNN

A better and possibly a more appropriate title for this article would be *Some Difficulties in Public Accounting Practice in Cities of Twenty-five Thousand Population and Under*. Students of accounting, present and future practitioners seeking a place to practise their profession frequently inquire concerning the opportunities in the smaller cities having populations not exceeding, say, 25,000. It has been said, too, without much possibility of absolute proof, that there is a lucrative field in these cities for the professional accountant and also that the profession may be slightly overcrowded in the larger cities. While one illustration, or even a small number of them, statistically speaking, does not furnish satisfactory evidence to prove a proposition conclusively, the writer of this article presents a few observations on the difficulties of practice in the small cities, as well as some hopeful arguments in behalf of the opportunity for the professional accountant in such a place.

It should be said here that this article has not been written with any sense of regret or recollection of bitter past experiences of the writer, but with a feeling that the professional accountant is slowly gaining ground. However, the prospective practitioner should be informed of some of the difficulties which may arise in the course of building up a good practice. The term accountant, as used in this article means one who is certified or one who belongs to the American Institute of Accountants.

The files of the *Bulletin* of the American Institute of Accountants in its announcements concerning accountants indicate that there is an increasing number of offices being opened in the smaller cities. This is certainly indicative of the growth of the demand for the services of professional accountants.

Numbers of difficulties arise in small-city practice. Many of them apply typically to the smaller cities and some of them, no doubt, may apply also to a great extent to practice in the larger cities, but the points subsequently mentioned in this article are those which more strongly concern accountants in the smaller places. In these cities the opportunities for practice are limited, because there are many branch stores and offices of larger or-

ganizations whose books and records are audited by staff auditors or public accountants from the large cities where the home offices of the respective branches are situated. Or the work may be done by public accountants in the larger cities where district offices are located.

The installation of records or so-called system work is usually done for the branches by representatives from the home office. There are many branches in the smaller cities—for example, those of oil companies, telephone companies, chain stores and branches of wholesale houses. Then, too, the respective trade associations, by endeavoring to develop uniform accounting, do a considerable amount of local work, for example, in the building supplies and lumber companies, where the local dealers belong to city, state, district or national associations which are strongly advocating a uniform system of records, prepared by some firm of accountants chosen by the association to do installation work and to spread information among dealers on the advantages of an adequate system. These associations are correct in their policy of attempting to spread information on the importance of records, as a means to the end of good business administration with a resultant higher percentage of profit. Many “complete systems” prepared by blank-book and stationery publishers for retail stores, garages and other businesses should be mentioned also. Such systems may not always be entirely satisfactory, but they are better than none. Sometimes they serve the purpose and may be obtained at a minimum cost and be operated without a large amount of clerical assistance.

In the smaller cities, there is noted in many instances a lack of stimulus among business men for better records, because the community is typically one of small firms with possibly not more than two or three that may be considered large, and because small merchants and business men are not educated to the benefits of the services of public accountants. Suffice it to say that accounting is looked upon, regrettably but frequently, as a superfluous and somewhat useless thing which may be foisted upon a business by an over-enthusiastic public accountant. And it is true, no doubt, that some small firms, as well as large ones, have been misled as to the benefits to be derived from accounting, and accordingly have been over-systematized with a set of books and records too large for the particular business and too expensive to operate.

The local press in the small communities is sometimes reluctant to give space to matter dealing with accounting questions. The reason usually given is that the importance of the profession of accounting is not sufficiently known, and the material sent in for publication is branded by the editors as a mild form of propaganda. It should be added, however, that most editors in smaller cities are eager to publish such matter when it is of national importance and readily give it prominent space.

The rapid spread of the knowledge of accounting through correspondence, secondary, evening, continuation and collegiate schools of business is training annually an increasing number of people in accounting and related subjects. In the small cities such training is often sufficient for the small business and the services of certified public accountants are, therefore, not desired by individual firms. A "complete system" may be installed and operated by a person who is not in any sense a specialist in accounting. Again, attorneys in these communities do considerable tax work, and banks do a good deal of tax work gratis, especially in small cases where no particular accounting complications arise. Now and then a professional accountant may be called in where there is considerable accounting involved. Lawyers handle estates, bankruptcy cases and other matters without the apparent need of a trained accountant. The reasons for this are, first, that there are slight, if any, complications in the nature of cases handled and, second, that there is a lack of knowledge as to the value of the services of the accountant trained not only in accounting and business statistics, but in business administration. Most bankruptcy cases of the smaller type are taken care of by the trustees in charge without any need for professional accountants. The matter of selling the stock of a bankrupt concern is left to the wishes of the creditors and frequently they are not aware of the advantage to be derived by calling in an accountant. In observing dozens of small bankruptcy cases, the writer has not yet seen a single case where the services of a public accountant were engaged.

Coöperative associations for fruit growers and producers of cotton and other products usually do not have audits made. The local bookkeeper in charge is sufficient, as there is no desire on the part of the members of the association to have an outside audit of the records. The administration of such associations is usually left to the general manager in charge, who is frequently not

Some Difficulties in Practice

accustomed to dealing with records and consequently does not know the importance of the aid of an experienced certified public accountant. The members of the boards of directors of such associations, while successful in their respective vocations of farming and the like, pay little attention to the function of keeping the records of the organizations. The records are often kept by a local bookkeeper who may or may not have other regular employment, but has time to work for such associations during the busy season.

A few years ago, when the federal tax law touched more people than it does now, there was a heavy demand for accountants, but as the years have passed there has developed, on the part of the public, more or less general knowledge concerning the federal tax law, its provisions and administration and the procedure to be followed in preparing income-tax returns. Under the present act, fewer persons pay taxes than at any other time, except prior to the act of 1918. Local government work and city and county audits are in the hands of the local council or its representative committee and the county affairs are usually under the direction of the fiscal court. The fees paid for city audits are frequently enough to attract certified men of high standing. County audits are often paid for on a very low basis, not more than low daily wages which are not sufficient to attract trained accountants. Consequently this work is frequently done by some local person who has had experience only as a bookkeeper. But there are some indications that county officers are thinking in terms of better records with a desire for periodic audits by certified public accountants.

There is also some feeling in small cities, on the part of business men, and even some professional men, for example, physicians and dentists, that they know enough to design records for their individual use, or they resort to complete systems specially designed, and accordingly make income-tax returns without the aid of a certified public accountant. Especially is this true as regards federal tax returns. It is generally felt that a copy of the federal tax law and the regulations is all that is necessary.

Where the bankers know personally almost every one in the community, there is apparently little need or demand for certified statements to be submitted for credit purposes. Some bankers even say that to demand a statement of condition or balance-sheet would tend to drive customers away, because the banker's

patrons have not been educated to the use and importance of certified statements, whereas the business men in the larger cities have already arrived, mentally speaking, at the point where it is often taken for granted that a certified statement is very desirable and will serve to impress the banker with the customer's good business sense.

Another difficulty that accountants in small cities must face—one which materially affects individual educational development—is the lack of opportunity for obtaining a variety of experience. There is not sufficient opportunity to gain wide experience. As mentioned before, many of the larger engagements are taken care of by firms from distant cities at the instance of the home office or the work is done by a company's traveling auditor. It is sometimes difficult for an accountant in a small city to keep a staff that is sufficient to meet the needs, because the demands are not evenly distributed throughout the year. Then, too, the amount of practice may be too large for one, two or more men, but not large enough for two, three, or more.

Another difficulty or disadvantage is the lack of association with other members of the accounting profession. In the large cities enough accountants are often found to make possible the formation of a local society. On account of the lack of such professional intercourse in small places the accountant must resort solely to reading accounting literature and to an occasional visit to a regional or state meeting. In public practice, it is almost absolutely necessary that every accountant be supplied with some of the best tax services, but these are expensive for those whose practice is somewhat limited. Circulars received from time to time indicate that the larger accounting firms are subscribers to more than one of the various services, of which there now seems to be an epidemic. Each one, however, has some merit. On this point of educational development no local accountant can compromise by doing without some of the services on the ground that practice does not justify them, even though the overhead expense is high. Professional advancement requires that an effort be made to keep up to date in the profession. In addition to services, many books must be purchased, as is the case in any kind of effort which is of sufficient importance to be styled a profession.

One other difficulty, which has been reserved for last mention, relates to the term C. P. A. Used after one's name, these letters signify to the minds of some people in the small communities a

very high-priced type of service. The public has somehow gained an idea that a certified public accountant charges a tremendous per-diem rate. The application of this statement here is to the small communities, but possibly it may apply in a degree to the smaller merchants and other business men in the larger cities as well. To quote a rate of forty, thirty, or even twenty dollars a day, for each man, sounds high to the business man who possibly has no one on his payroll who is receiving more than one hundred or one hundred and fifty dollars a month. On the other hand, there are some men to be found in a community who instead of employing a local accountant see magic in the practice of obtaining accountants from the large cities. This evidently rests upon the idea that those from the large firms have had a greater variety of experience, and that thought is at least partly justified.

There are very encouraging signs, however, which should be noted in this discussion of difficulties. Some evidence that the local accountants are gradually making a place for themselves is present in the smaller cities. The general spread of education which leads to a better understanding of our industrial system and how it works serves to point out that we exist in an age of great specialization, which is ever on the increase. With the growth of this idea of specialization, the accountant is coming in for his share of consideration as one who is equipped by proper professional training and experience to render a specialized and very important service. The better educated the business man, the more he is likely to recognize the services of a professional accountant as a specialist not only in technical accounting but in business administration in general. Even those business men who may have had technical training for business themselves are willing to turn some of the responsibilities of their organization over to professional accountants, at least for an annual or semi-annual audit, and an occasional firm goes to the extent of obtaining the services of accountants on a retainer-fee basis.

There are also some signs which indicate that the non-resident managers of organizations having branches in the smaller cities are willing to employ local accountants for audits of the respective branches. Such a plan saves traveling and hotel expenses of accountants and at the same time satisfactory results are obtained. As accounting practice becomes more standardized this procedure, now in its infancy, will probably become more common. Local certified public accountants are really in a position to render

greater assistance because they are on the ground where close supervision may be exercised over the records of local branches. Some of the trade organizations, through their accountants, are showing a fine spirit in this direction. The officers in charge of such trade associations employ accountants to design a standard system and after it is installed state that it makes little or no difference to those using such systems what accountants do the periodical audit work. Installation of the system by a central office of the trade association serves its purpose when those who belong to the association have begun to use the proper records and standardized reports.

Local accountants sometimes establish an affiliation with accountants in one or more of the larger cities, in order to be able to obtain assistance when needed for the more difficult cases which arise occasionally in practice. These affiliations are also convenient when some circumstance may prevent the local accountant from completing the job at hand as it should be done.

There are also accountants in small cities who handle the affairs of persons serving in the capacity of secretary, treasurer or general manager who desire the services of a certified public accountant at least once a year as a desirable protection to themselves. This idea is spreading and even applies to non-profit-making organizations where funds of a semi-public nature are handled.

An attempt has been made in this article to point out a few of the difficulties to be met in professional accounting practice in cities of twenty-five thousand population and under. Certainly no claim is made that the list of difficulties mentioned in this article is complete. Accountants practising elsewhere may have met many others that should be added to this list. Furthermore, an effort has been made to show that there are signs of encouragement for the growing importance of the profession in small cities. Those who are willing to strive hard in order to render a high type of service, but at the same time to be content with a slow but steady growth, appear to have plentiful opportunities for establishing what may possibly not be the most lucrative practice, but a practice that brings substantial return for the professional services rendered.

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A. P. RICHARDSON, *Editor*

EDITORIAL

General Motors Stock Division

Directors of the General Motors Corporation at a meeting held August eleventh announced that a special meeting of shareholders would be called to consider a proposal to increase the authorized common stock issue from 10,000,000 shares of no par value to 30,000,000 shares of a par value of \$25 each. The plan calls for a substantial reduction in the authorized number of shares of the 6 per cent. preferred stock and 6 per cent. debenture stock to the amount now outstanding. The limitation upon the number of senior securities really advances the value of the common stock as it prevents the increase in the outstanding preferred and debenture stocks which under the existing authority may be made at any time. It is not proposed apparently to issue the entire amount of common stock but merely to give each present holder two shares for every one which he now owns. The statement of the company shows 8,700,000 shares of no-par-value stock now in the hands of shareholders. Under the proposed readjustment there will be 17,400,000 shares of a par value of \$25 each or a liability against the company of \$435,000,000, which is the amount now carried on the books as the value of the no-par stock. The market price of the stock is a different matter altogether and is governed not by the nominal value of the stock but partly by the dividend payments and chiefly by the enormous profits from operation, which this year will probably exceed \$25 a share. On the surface of the proposed rearrangement there is nothing extraordinary. A company which in sum of profits exceeds all others in this country, a company which has always been singularly responsive to demand for capital readjustment, has done what scores of other companies great and small have done. It has seen the wisdom of a division of ownership into units which are within the reach of the ordinary investor and perhaps it

has recognized the political expediency of a plan by which distribution of profits would not appear to the general and unthinking public as unduly large and therefore unholy. The statement which was published in the daily papers on the day after the meeting of directors showed clearly that the total of capital stock and surplus would not be affected in any way. The old notion that splitting a share of stock into two, three or any other number of parts was a distribution of profits has been pretty well exploded. So the announcement of the action of the directors—which is practically sure of approval by the shareholders—was accepted in the investment world as a logical development of prosperity and no one was very much excited about it. The tipsters and wise men of Wall street had been predicting such a thing for several weeks and the market had performed that familiar feat which is known as discounting the good news. If the announcement had been made when the market was in a normal condition there would have been a ripple of excitement, perhaps, but it came at a time when the market was undergoing a course of phyc following an orgy of high living, and so the proposed change was merely noted.

**Proposed Return
to a Par Value**

But there is, we believe, a really significant feature of the proposed plan for changing the capital structure of the General Motors Corporation which has escaped notice. Two or three financial writers in the daily press have commented in a fugitive way upon the matter but have not considered it with any great care or thoroughness. The point to which we refer is the suggested return to a fixed par value as a basis of capital stock valuation and the coincident abandonment of the comparatively new-born scheme of stock without par value. This is a highly important suggestion. It would be so were the company one of far less prominence than General Motors. When it is one of the largest corporations in the country, controlled by some of the shrewdest and most prescient minds in the realm of finance, it becomes of the utmost interest. Does it signify a revulsion of feeling against the always somewhat confusing absence of a par value? There may be special reasons, political or fiscal, as someone has suggested, for the proposed return to a par-value basis, but there is nothing to indicate that the proposal is anything more or less than an expression of the opinion of the directors that a

great enterprise should be definite in its structure and policies rather than vague. The whole theory of no-par-value stock in the first instance was founded upon conditions similar to those which prevail in the present case. A stock having a par value of, say, \$100 and selling freely on the exchanges at four or five or ten times that amount, or, as frequently happens, selling for only a fraction of the par value, seemed to show an absolute lack of relationship between par value and fact. So, said the proponents, let us cast out this unrelated guest—this par—and get along without him. And they did. Several states, wishing to attract revenues by the most alluring tactics began to grant charters to all who desired elasticity and complaisance in regulatory governance, seized upon the no-par-value theory and made of it a little god in the house of Baal. Other more conservative states yielded to the clamor for reform, and soon quite a wide range of opportunity was open. No one knew much about the new idol but it seemed to possess magic and to exude witch medicine, so it was exalted. The general ignorance of the true nature of this wonder-working device was made evident four years ago when the American Institute of Accountants offered prizes of ten thousand dollars for the best essays on the amount of surplus available for dividends, with particular reference to capital stock without par value. Only a dozen or so writers entered the competition and some of these displayed an absolute misunderstanding of the subject. No essay was considered worthy of a substantial prize. Several books and magazines have contained discussions of the method and effect of capitalization without a fixed value for the stock, but if any of these have been comprehensive and fully explanatory we have failed to find them. The truth of the matter seems to be that, while there may be cases in which there is no imperative need for a designated book value, we cannot be sure which they are, because none of us knows the subject. It is a theory which excites interest, but in practice it is full of uncertainties—and, then, it may be employed in quite undesirable ways.

**Capital Requires
Definition**

For example, there is a time-honored axiom that capital must not be distributed in dividends—excepting, of course, those distributions of capital in case of compulsory liquidation which are erroneously called dividends but are in reality return of salvage. Now if this axiom is to be observed, as the laws of most

jurisdictions require, it is necessary at the outset to know what is capital. Under the earlier no-par-value laws it was customary to assign in the balance-sheet a value to the capital stock based upon the amount invested or the net value of the assets acquired from a predecessor company; or, in other cases, an arbitrary value per share was set up as capital and the balance in excess of this sum was treated as a capital surplus, but it was not a surplus available for dividends. There was and is substantial logic behind this theory, and the plan undoubtedly does afford a certain measure of convenience. So long as the state legislatures were content with such a plan for no-par-value stock, all was well enough; but they were not always content. Here is a sample of what is now the law in one state which, for several years, has been a favorite lying-in hospital for the promoters of new corporations:

"Any corporation may by resolution of its board of directors determine that only a part of the consideration which shall be received by the corporation for any of the [no par value] shares of its capital stock which it shall issue from time to time shall be capital. . . . The excess, if any, at any given time, of the total net assets of the corporation over the amount so determined to be capital shall be surplus."

Under such financial free-love provisions of later statutes, a board of directors is free to remove the ancient land-marks which have separated capital and income. In conservative hands the permanent interests of the company—that is, of course, the common shareholders, excepting in those rare cases in which preferred stockholders have proprietary as well as pecuniary rights—may be protected as well where there is no parity of stock value as where there is a par value; but all hands are not conservative. Moreover, directors and management are never unchangeable, and any company may find itself under the control of men who will not think of continuing prosperity so much as of present dollars. We do not believe that the companies which have adopted the no-par-value plan have done so with the intention of permitting an unwarranted distribution of capital, and probably few, even unwittingly, have gone beyond the true profits to find matter for dividend payments; but there is the possibility that by inadvertence or wilfully the lack of a clean visible line between capital and surplus may lead to a depletion of the former and the consequent wrecking of the company's future hopes. As an illustration, here is a consolidated balance-sheet of a well-known and prosperous corporation having an issued stock of more than five million shares out of a total authorized amount nearly twice as large. This is

shown on the balance-sheet without any value whatever. The capital surplus is shown at an amount of more than twenty million dollars. There is a million or so of earned surplus. Supposing that the directors of this corporation wished to be kind to the shareholders, how generous could they be without danger to their liberty? Could it not be argued with some show of reasonableness that the capital being valueless, the surplus being surplus, some twenty odd millions could be paid in dividends and no one go to the penitentiary because of it? Are the directors in such a case charged with the duty of differentiating between what they could regard as true surplus and what ought to remain in a capital account which does not exist? Apparently the company saw the absurdity of this condition and in the next year the balance-sheet was amended by setting below the stock of no value a statement that the stock was represented by a certain amount of capital surplus. But even that, it seems, may be rather vague and not sufficiently definitive to deter the directors from making excessive distributions of surplus if they choose to do so. Fortunately this was and is believed to be a sound company, and it may be said that no harm has been done, but the possibility of evil is not removed because a group of men is upright. There will be other groups in the days to come.

**Impressive Precedent
is Established**

It is not possible to speak with authority on the motives back of the proposal to give a fixed value to the new shares which will be issued by the General Motors Corporation, but it is apparent to all who think impartially about this question of the nominal value of shares of ownership that the experiment—and it is for the greater part purely an experiment—of shares without a value has not been so brilliant a triumph over earlier and simpler forms of capitalization that its abandonment in this case is astonishing. At any rate the fact remains that without any apparent reason other than a desire to rebuild the financial structure in the most substantial and enduring form, the directors of one of the greatest corporations in the country, men representing what is commonly conceded to be the best school of sound finance, have seen fit to recommend that there shall be a par value of the common stock of the corporation and that future balance-sheets of the company shall leave no room for doubt as to the dividing line between capital stock and surplus. It would be foolish to deduce

from the action of the directors in this instance that the day of the stock without par value has gone by. A good many people will still believe that a par value is unnecessary and misleading. In the case of General Motors, however, the book value of the stock is not affected and therefore no one should be confused by a change which is a change, let us say, in principle rather than in effect. Probably there will be no unseemly scramble to follow the example of General Motors. This tremendous corporation may travel alone the road back to conservatism, but if it does it will not lack companionship, for it is a host in itself. But it will be a rather powerful argument which the friends of par value will have when capital construction is under discussion. They can say with good effect: "General Motors tried the no-par-value-stock plan but after an experiment sufficiently long to be convincing it came back to the old-fashioned belief that everything which has a value has a value and only that which has not has not." It sounds like a fairly strong argument.

**Cost versus
Replacement**

The interstate commerce commission has added another to the ever-growing list of injustices which it has attempted to perpetrate under the provisions of the Esch-Cummins act. This time its decision is no worse in principle than several that have gone before, but it is worse in effect than some of the others because of the importance of the company concerned. In the early days of August the commission issued its valuation of the Atchison, Topeka & Santa Fé Railroad and, as had been feared if not positively expected, the figures given by the commission are utterly at variance with the claim of the railway company. In this the commission ran true to form, if not true to common sense, and the public is reminded of what was done with the valuation of the New York Central, Southern Pacific, and others great and small of our transportation companies. It is quite incomprehensible why the commission, which in some ways is helpful to the second industry of the country, should outrage the very essentials of fairplay and equity when it comes to a question of valuation. The commission is throwing the matter to the supreme court of the United States, but no one can understand why it is doing so. It says to the railways that for purpose of estimating the value of assets the cost shall be the determining factor. The railways point out with what is irrefutable logic that values before the war

are not the values after the war. These valuations in the first instance are to be based upon the figures of 1916, but the railways have not stood still since 1916, except while the government was demonstrating its inability to manage them. The equipment, materials, all the tangibles could not be replaced today for less than double their 1916 cost. Our tax laws, which are never regarded as favorable to the public, admit the complete change of values since the war. Not a householder, nor housekeeper either, who believes that the costs of today are as the costs of 1916. Every school-boy knows that the railways are the arteries of commerce and industry and that they should not be oppressed. Regulation is desirable probably, but strangulation is not good for them, nor for the nation. And yet, in spite of these and a host of other equally potent reasons, the interstate commerce commission blunders along in its blindness and insists apparently that it costs today no more to buy and to build than in those far-away days before war changed the world. There can be no doubt about the result of the valuation appeals when they come before the supreme court, but still one can not understand why anyone, commission or man, should deliberately and continuously ask to be declared in error.

**Illinois Makes
More Law**

Most disinterested people, to whom the high and doubtful honor of election to a state legislature has never come, are cruel and unfair enough to think and sometimes to say openly that the senates or assemblies or whatever they may be called of any of our forty-eight states—let us say, for example, Illinois—could follow the portless cruise of the flying Dutchman and not leave the world a whit the poorer. Sometimes a faint suspicion of the truth seems to filter in between the shutters which close legislative halls to the light of reason. For instance, we have received a report that the last session of the legislature of Florida gave evidence of a stumbling toward comprehension. It is said that a bill introduced in the lower house called for the abolition of the senate. We have not the text of the bill before us, but it is to be hoped that the date fixed for the destruction of the senate was far enough ahead to have allowed the senate time to arrange for the obsequies of the assembly. Assuming that this was in the original bill or was introduced as an amendment, it appears that the legislature of Florida had an opportunity for the relief of a

suffering world such as has never come to any other power. At any rate, it is something to the credit of Florida that the idea of this great salvation was born within the stately halls of Tallahassee. This has nothing whatever to do with the parliamentary gymnastics of Illinois save that an incorrigible optimist might be induced to hope that something equally purifying may some day find introduction at Springfield and perhaps—who knows?—pass from a bill to an act and thence to a fact, while Illinoisians lift up their voices in the long meter doxology. Some two or three years ago the sapient souls of Springfield were induced—some say seduced—to amend the laws governing the practice of public accountancy, the governor signed the bill, it became a statute and all that had been done by the accountants of Illinois to make and hold up a profession was wasted, apparently. The thing came into court, however, and there it was decided that what the “boys” at Springfield had done was contrary to the constitution under which legislative boys are supposed to conduct their games. So the whole affair was thrown out into the alley, the old law came back into effect and the accountants took heart of grace again. Everyone was pleased, excepting the boys and perhaps some of their playmates who had first encouraged them to try the new game in the hope that something joyful might come out of it. The decision of the supreme court of Illinois was rendered in 1926.

**Two Laws Are Not
Better than One**

The legislature of Illinois is a persistent body. It meets every other year and enjoys itself so much that it stays in session an unconscionable length of time. While it is operative the public envies the secure permanence of the folk who dwell on the slopes of *Ætna*. This year it did seem for a while as though the session would pass away without passing anything inimical to accountancy. There may be those who feel that what it has done is no worse than silly. But however one regards the matter it must be admitted that the way of the accountant in Illinois is beset with pitfalls, we had almost said with gins. A bill was introduced which provided for examination—after a sufficiently protracted opportunity to avoid examination—registration and regulation of public accountants. The bill was quite an elaborate document and it provided generously for those who seemed to need protection from too rigid control, but the certified public accountants, when they heard of it, were vexed and said so. They sent an

embassy to Springfield and proponents and opponents of the bill finally agreed upon amendments and major operations which made the position of the certified public accountant somewhat clearer than it would have been under the bill in its primitive form. Other additions and subtractions changed the effect of the bill materially and at last it received the rather weary assent of the certified accountants. It passed both houses without great travail and the governor did not slay it. So it is law, unless someone finds that there are unconstitutional features which do not yet appear. Its net result is to create a new class of accountants, public accountants, who, after the initial days of grace, must pass examination and deport themselves very much as certified public accountants are required to do. All who practise accountancy, certified or public, must register with the authorities once a year—and that is no greater hardship than that which rests by law upon physicians, dentists, midwives and farriers. There are other states in which the experiment of two classes of accountants is being tried, but in Illinois the case is unlike any other. The public accountants are not, as elsewhere, to be those who were in practice at the passage of the act and are therefore a constantly decreasing group. In Illinois it seems that the certified public accountant and the public accountant are to be fruitful and multiply and replenish the earth side by side. A delightful spirit of rivalry may spring up between them and urge them on to feverish and forced propagation. The public in the meantime will not know what is to come of all the excitement and probably will not care much about it one way or the other. The only things to be accomplished by this deed of an agreeable and friendly legislature are these: the public will be confounded; instead of one standard of proficiency there will be two and no one knows which will be the better; men of experience who have longed for surcease from legislative interference are discouraged and disgusted; and, what may be the real purpose of the whole campaign, a door has been unlocked at which for a time none who seeks to enter will be asked any impolite and obstructive questions.

And yet, legislators are not always inconsiderate. There come times when they seem nearly sentimental. The incidence of taxation sometimes falls with an almost loving touch. The Alabama legislature must be one of those soft-hearted bodies

which are tender to the frail. In the session of this year the gentlemen at Montgomery enacted a bill which provides that a licence fee of \$25 a year shall be paid to the state by every professional actuary or accountant. If there be a partnership or corporation engaged in practice each person (presumably each principal) shall pay such a licence fee; but, and here is the humanitarianism, "only one-half of the said tax shall be collected from those whose receipts from the business or profession for the preceding year did not exceed one thousand dollars." We may overlook the quandary in which the taxpayer whose income was \$1,012.49 would be placed to escape unfair discrimination between himself and the recipient of exactly \$1,000 of earnings. The intricacies of the border must be resolved by the administrative departments of the state government. But it is worthy of a moment's thought that the rights of the poor are not to be ignored. The question arises whether or not there can be, even in the warmth and abundance of Alabama, a practising accountant or actuary whose receipts are less than one thousand a year, and then, if there be such a one whether or not he would claim the 50 per cent. allowance. It seems almost a pity to throw cold water on the flame of philanthropy, but it must be confessed that an accountant or actuary conducting a practice whose financial return is not more than \$1,000 does not deserve special consideration. In the first place he does not exist; in the second, if he did he should not. A professional man who is not worth more than a thousand dollars a year to the community in which he lives has made a mistake. He should consult one of those vocational advisors of whom we hear now and then. They could not make a mistake in his case whatever change they might suggest.

**Early Days of the
Profession**

We are glad to be able to publish in this issue of THE JOURNAL OF ACCOUNTANCY the first part of an historical sketch of accountancy in Pennsylvania prepared by one who for many years has been an eminent member of the profession. It is interesting to remember that the record of the development of accountancy in Pennsylvania is written by George Wilkinson, who at the time of the principal events covered by his article was not a resident of Pennsylvania. Mr. Wilkinson began practice in 1880. He was active in the development of accounting organization in all parts of the country, but he can write of Pennsylvania without

any accusation of partiality as he was one who looked on from the borders of that state. He was in the first place an active member of the Illinois Association of Public Accountants, which he was instrumental in organizing in 1897; then of the New York State Society of Certified Public Accountants, and of the Society of Certified Public Accountants of New Jersey and his places of residence, until the last few years, were Chicago and Plainfield, New Jersey. Today Mr. Wilkinson is an active member of the profession in Philadelphia, where he has been practising since 1915. The occasion for which the bulk of this article was written was the thirtieth anniversary celebration of the formation of the Pennsylvania association, which is today known as the Pennsylvania Institute of Certified Public Accountants. So little has been written adequately descriptive of the development of accountancy in America that it is peculiarly interesting to have this intimate record of persons and the profession in its early days, written by one who has personal knowledge.

Income-tax Department

EDITED BY STEPHEN G. RUSK

Included in the recent rulings summarized in the July issue of *THE JOURNAL OF ACCOUNTANCY* was a decision by the United States district court of the southern division of Georgia, in the case of the *United States v. William H. Haar, et al.* in which the court ruled that "a return is an essential preliminary to the assessment of income tax under section 3176 of the revised statutes as amended by the acts of 1916 and 1918, and a telegram from an internal revenue agent in charge recommending immediate assessment of income tax is not such return as is required nor a substitute therefor."

Section 3176 of the revised statutes as amended by acts of 1916 and 1918, reads, in part, as follows:

"If any person, corporation, company or association fails to make and file a return or list at the time prescribed by law, or makes, willfully or otherwise, a false or fraudulent return or list, the collector or deputy collector shall make the return or list from his own knowledge and from such information as he can obtain through testimony or otherwise. The commissioner of internal revenue shall assess all taxes, other than stamp taxes, as to which returns or lists are so made by a collector or deputy collector."

As the court pointed out, a return of income tax shall set out specifically the amount of the gross income from all separate sources and from the total thereof there shall be deducted the aggregate items of allowances authorized by law.

In the case in question the revenue agent in charge wired in a mass of figures, apparently culled from ledger accounts, and a list of the amount of tax to be assessed for each of the several years involved. From these data it appears that the taxpayer had made no returns. As the period approached when the statute of limitations would be effective, apparently there was no time to be squandered in analyzing the books and making the returns, and the revenue agent wired in his findings and recommendations.

It is impossible to find fault with the revenue agent or the commissioner in acting promptly even if a bit arbitrarily in seeking to protect the government, and, of course, there is no such inference to be derived from the court's opinion. On the other hand, no one reading the court's opinion can be other than convinced of the rectitude of the reasoning and decision.

The fact that impresses the writer, however, is that a taxpayer could so flaunt the law as to fail to make a return and be saved by what appears as a technicality, for surely congress did not intend that anyone should escape taxation merely because the lawmakers could not foresee every circumstance that might arise that should be considered in framing the statute. This same fact has undoubtedly occurred to everyone having contact with the tax laws, especially where, because of some technicality, a taxpayer has been obliged to pay a tax upon transactions that, viewed from the standpoint of common sense, did not involve gain to him.

Income-tax Department

However let us take cognizance of the statement of the judge passing upon this question. He observes:

“Are not citizens, both those who are immediately concerned and others, entitled to know whether or not the authorities vested with this great power are exercising it in fairness and moderation? And are they not entitled to have a record made up at the time which will permanently and accurately disclose the methods? What is there to show in merely furnishing the gross amount of the assessment that a wrong rate was not charged? What is there to enable the taxpayer to be advised as to what he might ask to be abated? Why should it not be required that the collector or commissioner, whichever makes the return, should at least show the information obtained as far as practicable? Accuracy is not required, but an honest effort should be made and a contemporary record should be kept. In the absence of other controlling legislation it is to me quite clear that congress did definitely require as an essential preliminary to the assessment of income tax that there should be made a return.”

One is impressed with the court's inference that citizens and others who are not immediately concerned are entitled to know that the authorities vested with this great power are exercising it in fairness and with moderation. It is hoped that a particular few of the large group invested with this great power will read the court's observations and believe that others than those immediately concerned are interested in knowing that there should be nothing arbitrary in their exercise of the power with which they are vested.

There have been many attempts to interpret as taxable income transactions that obviously did not result in profit, but because there might be some vague misgiving as to the purport of the transaction the item was inserted in the revenue agent's report as indicating taxable income, with the idea, no doubt, that if he were wrong about it the taxpayer would have to prove it to the revenue agent's superiors. Revenue agents cannot be expected to be omniscient; they are not expected to be infallible, but it seems that sometimes some of them do not exercise their power with moderation and in fairness. Every tax practitioner has been confronted with a situation wherein the taxpayer was obliged to incur considerable expense to prove to the commissioner that a transaction wholly devoid of profit did not result in income although all the facts were set forth accurately and in the prescribed manner. Owing, however, to some suspicion arising in the mind of the examining officer the real facts were so distorted that it became a task to prove that the deficiency asserted by reason of this erroneous view was wholly unwarranted. The power of assessment should be exercised in fairness and moderation, but that does not mean that any taxpayer should be permitted to pay more or less tax than the law provides should be paid by him.

SUMMARY OF RECENT RULINGS

A corporation the entire income of which was derived from rents of property subject to mortgage as security for bonded indebtedness, may deduct for each year interest paid on such bonded indebtedness (a) under the act of 1909 in an amount equal to the interest on the paid-up capital, and (b) under the acts of 1913 and 1916, in an amount equal to the interest on the paid-up capital plus one-half of the interest-bearing indebtedness for each year, since the property used as collateral does not come within the proviso of the 1913 and 1916 acts. (United States circuit court of appeals, second circuit, *Ivy Courts Realty Company v. United States of America.*)

A close corporation which declared a cash dividend when it had on hand no funds with which to pay it, and later paid in cash only the excess of the amount so declared over a stock assessment levied against its stockholders, may include in invested capital between the date of declaration and that of the payment of the dividend, the entire amount of the dividend originally declared. (United States circuit court of appeals, ninth circuit, *John L. Flynn, collector v. Haas Brothers.*)

The right to recover a tax by suit is barred where the claim for refund was filed after the statute of limitations had run.

Loans by a bank evidenced by promissory notes, which were not paid by the borrowers, are debts deductible when ascertained to be worthless and charged off, and not losses deductible in the year.

State and county taxes which under the laws of Idaho were imposed upon the holders of bank stock and paid by the bank and for which it was not reimbursed by such stockholders, are not deductible from gross income of the bank under the 1918 act.

Suits for recovery of taxes must be based on the same grounds as those given in the claim for refund.

Loans alleged to have been negotiated by bank officers in violation of the Idaho state banking laws, which were not repaid by the borrowers, are not deductible by the bank as losses from embezzlement where there was no evidence of fraudulent intent as required under the statutory definition of embezzlement. (United States district court, Idaho district, southern division, *Citizens State Bank of Buhl, Idaho, v. United States of America.*)

Contributions to a cemetery association were held not deductible as charitable contributions under sec. 214 (a) (11) of the acts of 1918 and 1921, the word charitable having been used in such acts to signify corporations organized and maintained exclusively for eleemosynary purposes. (United States district court, Massachusetts district, *Walter E. Schuster v. Malcolm E. Nichols.*)

The sale by a corporation of stock of an affiliated corporation for more than it had paid for the assets of such company is a capital transaction resulting in no taxable profit. (United States district court, Massachusetts district, *United Drug Company v. Malcolm E. Nichols.*)

Goodwill is not subject to wear and tear, and a deduction for obsolescence of goodwill due to prohibition is not allowable under sec. 234 (a) (7) of the act of 1918. (United States district court, district of New York, *Haberle Crystal Spring Brewing Co. v. Jesse W. Clark, collector.*)

An agreement between a decedent's widow and his executors whereby, in consideration of certain payments, she relinquished (except under certain contingencies) all claims she might have as surviving widow except her interest under the will, does not comply with the requirements of the state (Tennessee) governing dissent from will, and amounts paid the widow in pursuance of such agreement are not deductible from gross estate as charges allowed by the laws of jurisdiction under sec. 203 (a) (1) act of 1916. (United States district court, Tennessee, *Lucy G. Briscoe v. E. B. Craig, collector.*)

Fees received by the "standing examiner" or "auditor" appointed by Pennsylvania state courts to report on the financial standing of corporations applying for approval as sureties, indirectly paid by such corporations, are not exempt as compensation paid to officers or employers of a state, etc., since such compensation was not paid by the state. (United States district court, E. D. Pennsylvania, *Phillipus W. Miller v. Blakely D. McCaughn, collector.*)

Where an unlimited waiver for 1917 was signed March 1, 1923, a refund of 1918 taxes may not, after date set by the commissioner for the expiration of all unlimited 1917 waivers, be applied as a credit against an additional tax for 1917 assessed, but no steps for collection having been taken, prior to such date, since such method is tantamount to collection by distraint after the expiration of the statute of limitations. Suit will be against the collector who applied the credit, even though the successor of the one to whom the tax was paid, though no proper claim for refund was filed and the statute may have run against a suit for recovery of such taxes. (United States district court,

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N. D. Ohio, E. D., *Peerless Paper Box Manufacturing Company v. Carl F. Routsahn, collector.*)

Taxes paid upon notice and demand from a collector, which was based upon a misrepresentation as to tax shown to be due by audit of taxpayer's return for 1920, may be recovered from the collector personally in an action for money had and received even though after such payment an agreement in writing of final determination and assessment under section 1312, act of 1921, was executed. (U. S. district court, S. D. Texas, *J. W. Carter Music Company v. J. W. Bass, collector.*)

The use of the donor's basis as the basis for determining gain derived by a donee upon the sale of property acquired by gift after December 31, 1920, as provided in sec. 202 (a) (2) act of 1921, is not contrary to the constitution. (United States circuit court of appeals, second circuit, *Frank K. Bowers v. Elizabeth C. Taft, and Gilbert C. Greenway, Jr.*)

A partner may not claim any deduction on account of shrinkage in value of partnership loan payable in German marks due to depreciation of the value of the mark. (United States circuit court of appeals, second circuit, *George Haviland v. William H. Edwards.*)

A petition for review of a United States board of tax appeals' decision may be made where the whole proceeding was before the board there remaining only the decision to be made which was not concluded before the 1926 act.

The board was in error in holding that certain debts were not bad and charged off in 1918, that it had no evidence before it as to March 1, 1913, value of depreciable property and in rejecting evidence before it of such value. (United States circuit court of appeals, seventh circuit, *Chicago Railway Equipment Company v. David H. Blair, commissioner.*)

An annuity given by will of a taxpayer's husband, in lieu of the statutory rights in his property to which she was entitled, is not taxable income. (United States district court, district of Nebraska, Omaha division, *Mrs. Arthur D. Brandeis v. United States of America.*)

Institute Examination in Law

BY SPENCER GORDON

[The following answers to the questions set by the board of examiners of the American Institute of Accountants at the examinations of May, 1927, have been prepared at the request of THE JOURNAL OF ACCOUNTANCY. These answers have not been reviewed by the board of examiners and are in no way official. They represent merely the personal opinions of the author.—*Editor, THE JOURNAL OF ACCOUNTANCY.*]

EXAMINATION IN COMMERCIAL LAW

MAY 20, 1927, 9 A. M. to 12:30 P. M.

Answer ten questions and no more—three on negotiable instruments; three on contracts; two on federal income tax, and one each on partnership and corporations.

Give reasons for all answers.

CONTRACTS

No. 1. Prepare a simple contract with the essential elements arranged in separate paragraphs. Point out the essential elements.

Answer:

Contract between A and B dated July 15, 1927: A promises to sell to B 1,000 dozen Gillette Safety Razor blades at fifty cents a dozen, to be delivered at B's factory August 1, 1927. B promises to buy from A 1,000 dozen Gillette Safety Razor blades at fifty cents a dozen, payment to be on delivery at B's factory August 1, 1927. (Signed) A. B. This contract contains consideration on both sides, to wit, the promise to sell and the promise to buy. The terms of the contract relating to subject matter, date, price and payment are definite and certain. Contract has a lawful object.

No. 2. How may a seller ship goods to a purchaser, retaining title in himself until the purchase price is paid? How is title then passed when the purchaser makes payment?

Answer:

A seller may ship goods to a purchaser retaining title in himself until the purchase price is paid by consigning the property to his own order with directions to notify the purchaser and by sending to a bank where the purchaser is situated a draft with endorsed bill of lading attached and instructions requiring payment of the draft before the bill of lading is delivered. Upon payment of the draft and delivery of the bill of lading to the purchaser, title passes to the purchaser.

No. 3. On May 1, 1927, Shearman signed and sealed a formal written offer to sell to Allen at any time on or before May 15, 1927, certain merchandise at a specified price. On May 5, 1927, Shearman wrote Allen that the offer was canceled and withdrawn. Upon receipt of that letter on May 6, 1927, Allen formally accepted the offer and thereafter sued to enforce the contract. What decision would you render in the action?

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Answer:

At common law Allen could recover. A seal imports consideration, and as every offer is a promise, it follows that if a seal is put upon an offer it becomes a binding promise. Shearman, therefore, could not revoke his offer and it remained outstanding when Allen accepted. In many states the common-law effect of seals has been changed by statutes so that the decision will be otherwise.

No. 4. What is the effect on a contract where a party to it (a) is declared a bankrupt and receives a discharge in bankruptcy; (b) makes a general assignment for the benefit of creditors? What, if any, is the distinction between the two cases?

Answer:

I shall attempt to answer this question only from the viewpoint of whether the contract may be enforced against the bankrupt assignor; otherwise I would have to write a book: A. After a bankrupt receives a discharge, contracts made before bankruptcy ordinarily can not be enforced against him. The bankruptcy ordinarily operates as an anticipatory breach of the contract. The cause of action arising from such a breach is a provable debt and is therefore extinguished by the discharge. B. An assignment for the benefit of creditors does not affect the contractual rights between the assignor and third persons not parties to the instrument of assignment and who have not expressly or impliedly assented thereto. It does not ordinarily operate per se as a breach thereof.

NEGOTIABLE INSTRUMENTS

No. 5. Is the following a negotiable instrument?

Topeka, Kansas,
Jan. 10, 1927.

To *George W. Brown*, Topeka, Kansas:

Pay to the order of Fred L. Jones \$2,000 on account of contract between you and the undersigned.

(Signed) JAMES A. SMITH.

Accepted
(Signed) GEORGE W. BROWN.

Answer:

This is a negotiable instrument. Under the uniform negotiable instruments law an unqualified order to pay is unconditional, though coupled with an indication of the particular account to be debited with the amount.

No. 6. What must a negotiable instrument not contain? What are the exceptions to this rule?

Answer:

A negotiable instrument must not contain an order or promise to do any act in addition to the payment of money. But the negotiable character of an instrument otherwise negotiable is not affected by a provision which

First. Authorizes the sale of collateral securities in case the instrument be not paid at maturity; or,

Second. Authorizes a confession of judgment if the instrument be not paid at maturity; or,

Third. Waives the benefit of any law intended for the advantage or protection of the obligor; or,

Fourth. Gives the holder an election to require something to be done in lieu of payment of money.

But nothing in this section shall validate any provision or stipulation otherwise illegal.

No. 7. A note payable to Moore or order is endorsed "Pay to Neil Bartlett for collection" over Moore's signature. It is then endorsed "Pay to Fred Downs" over Bartlett's signature. Downs collects the amount of the note from the maker. To whom does the money belong?

Answer:

The money belongs to Moore. The first negotiation being by restrictive endorsement operates as notice to all persons that the endorser has not parted with title to the instrument but merely constituted the endorsee his agent for collection, and any subsequent holder taking the instrument from the endorsee will be liable as trustee for the real owner when the proceeds are collected.

No. 8. Give an example of a case in which a holder with notice is a holder in due course.

Answer:

A holder who derives his title through a holder in due course and who is not himself a party to any fraud or illegality affecting the instruments has all the rights of such former holder in respect of all parties prior to the latter. This rule is necessary to protect the first holder in due course. Otherwise, the value of the instrument in his hands would be impaired.

CORPORATIONS

No. 9. X insured certain buildings owned by him with Y Fire Insurance Company against damage by windstorm or tornado, paying the required premium therefor. While the policy was in force the buildings were damaged by wind. When X sought to recover the amount of his damages the company contended as a defense that wind or tornado insurance was not within the scope of its charter powers and that the policy was therefore void. Was such defense good?

Answer:

The defense is not good. The corporation having received the benefits of the contract will not be excused on the plea of ultra vires where the contract is not wrong per se. Although X might have guessed that the Y Fire Insurance Company was for fire insurance only and had no power to give wind or tornado insurance, this would not necessarily be so, and it would impede business too much to require persons dealing with corporations to learn the exact extent of their corporate powers.

No. 10. What is a corporation *de facto*? a corporation *de jure*?

Answer:

Where there is a statute authorizing the formation of a corporation and there is an effort in good faith to organize a corporation thereunder and corporate functions are assumed and exercised, the organization becomes a corporation *de facto* although some of the requirements of the statute may not have been complied with. As a general rule the legal existence of such corporation can not be inquired into collaterally but can only be questioned by the state. A

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corporation de jure is one where all the essential requirements of the statute have been complied with. It is a corporation in law as well as in fact and has a right to corporate existence even as against the state.

PARTNERSHIP

No. 11. A decides to go into a retail business and to enable him to do so B and C lend A the sum of \$10,000 for one year under an agreement in which A agrees to pay to B and C as interest on such loan 5 per cent. of the net profits of the business for one year. Subsequently the X Company, which has sold goods to A, brings suit against A, B and C as copartners, for the unpaid purchase price. Does X corporation recover against B and C?

Answer:

The corporation can not recover from B or C since they are not partners of A. An agreement to lend money to a person engaged in business under an agreement whereby interest is to be paid equal to five per cent. of the net profits of the business for one year does not make the parties partners. The absence of any right of control which is an incident of partnership would indicate that no partnership was intended, as would the fact that the \$10,000 was to be returned at the end of the year and the further fact that there was no agreement on the part of B and C to share in losses.

No. 12. What risks would you deem to be important for careful consideration before you would enter into copartnership with another?

Answer:

The risk of financial loss in entering into an ordinary partnership is practically unlimited. Each partner is personally and individually liable for the entire amount of all partnership obligations whether arising from contract or tort. The individual property of a partner may be taken to satisfy the partnership debt. One partner may bind the partnership to obligations which will result in losses to the other partner. One partner or an employee may commit torts which will result in losses to the other partner. Among the risks that I would consider important for careful consideration would be the capacity, honesty, record, health, age, family connections, associations, religion, nationality, color, appearance and disposition of my proposed partner.

INCOME TAX

No. 13. In 1925 A, a stock broker, has income (after deduction of personal exemptions) of \$7,000, but he has suffered a loss of \$40,000 in the stock market so that his return for 1926 shows a net loss of \$33,000. Can such net loss be used as a deduction from A's gross income in returns for any years subsequent to 1925?

Answer:

If trading in stocks was the trade or business regularly carried on by A, the net loss may be carried into subsequent years. But if the stockbroker's regular business was only to buy and sell for customers on commission (which is the ordinary legitimate business of a "stockbroker" as distinguished from a "trader") no net loss would be allowed which could be used as a deduction in subsequent years.

No. 14. The W Company owns a large loft building, part of which it occupies and the balance of which is leased to various tenants under 5-year leases begin-

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ning January 1, 1926. In 1926 the company paid out \$25,000 to real-estate brokers as their commissions for securing the tenants and for the making of the leases. Is the sum so paid out a proper deduction for income-tax purposes for the year 1926? If not, how is such sum deductible?

Answer:

This is not a proper deduction for income-tax purposes for the year 1926. The sum should be capitalized and spread over the term of the lease, deducting \$5,000 each year of the five-year term.

Students' Department

H. A. FINNEY, *Editor*

H. P. BAUMANN, *Associate Editor*

(NOTE.—The fact that these answers appear in THE JOURNAL OF ACCOUNTANCY should not cause the reader to assume that they are the official solutions of the board of examiners. They represent merely the opinions of the editors of the *Students' Department*.)

EXAMINATION IN ACCOUNTING THEORY AND PRACTICE—PART II

MAY 20, 1927, 1 P. M. TO 6 P. M.

The candidate must answer questions 1 or 2, 3 or 4 and 5 or 6

No. 1 (48 points):

A fire-insurance company is formed, January 1, 1926, with a capital of \$500,000 and paid-in surplus of \$250,000. It expects to conduct a business that will result in a premium income (after deducting re-insurance and return premiums) for the first two years of \$360,000 and \$450,000 respectively and of not less than \$630,000 for each succeeding year.

It is desired to keep the commission cost within 25 per cent. and the other operating expenses at \$100,000 each year.

For the purpose of the reserve for unearned premiums, it may be assumed (a) that June 30th is the average date of expiry of all premiums and (b) that the premium income is equally divided between one-year, three-year and five-year policies. For the purpose of interest, you may assume that the company received from its investments \$40,000 the first year, \$50,000 the second year and \$60,000 each year thereafter.

You are required to make an estimate of income and expense, in tabular form, for the first five years ending December 31st, assuming the fire-loss ratio to premium income earned to be 50 per cent. Show how much higher a ratio than 50 per cent. the company could bear each year without impairing its capital.

Before an estimate of income and expenses may be made, it will be necessary to determine the estimated amount of earned and unearned premium income, and, for this purpose, schedules I (page 216) and II have been prepared.

Schedule II

Table showing estimated reserve for unearned premiums

| Year | Premium income | Deduct earned premium | Unearned premium for year | Balance at beginning of year | Balance at end of year |
|-------------|-----------------------|-----------------------------|---------------------------------|------------------------------------|------------------------------|
| First..... | \$360,000.00 | \$92,000.00 | \$268,000.00 | | \$268,000.00 |
| Second..... | 450,000.00 | 239,000.00 | 211,000.00 | \$268,000.00 | 479,000.00 |
| Third..... | 630,000.00 | 380,000.00 | 250,000.00 | 479,000.00 | 729,000.00 |
| Fourth..... | 630,000.00 | 502,000.00 | 128,000.00 | 729,000.00 | 857,000.00 |
| Fifth..... | 630,000.00 | 569,000.00 | 61,000.00 | 857,000.00 | 918,000.00 |
| Total..... | <u>\$2,700,000.00</u> | <u>\$1,782,000.00</u> | <u>\$918,000.00</u> | | |

Commissions due agents are computed on the amount of the premiums paid for insurance and are deducted by the agents in their statements of account and remittances sent to the companies writing the insurance. These commissions are considered by the companies as an expense at the date the policies are written, and no attempt is made to defer this cost over the life of the policies.

Statement showing distribution of estimated premium income

Schedule I

| Premium Income | Premium earned 1st year | Premium earned 2nd year | Premium earned 3rd year | Premium earned 4th year | Premium earned 5th year | Premium earned 6th year | Premium earned 7th year | Premium earned 8th year | Premium earned 9th year | Premium earned 10th year |
|-----------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| Total | \$120,000.00 | \$60,000.00 | \$60,000.00 | \$40,000.00 | \$20,000.00 | \$24,000.00 | \$24,000.00 | \$24,000.00 | \$24,000.00 | \$12,000.00 |
| 1 year policies | \$120,000.00 | | | | | | | | | |
| 3 year policies | | 40,000.00 | | | | | | | | |
| 5 year policies | | 20,000.00 | 40,000.00 | | | | | | | |
| Total first year .. | \$360,000.00 | \$92,000.00 | \$124,000.00 | \$64,000.00 | \$44,000.00 | \$24,000.00 | \$24,000.00 | \$24,000.00 | \$24,000.00 | \$12,000.00 |
| 1 year policies | \$150,000.00 | | | | | | | | | |
| 3 year policies | | 75,000.00 | | | | | | | | |
| 5 year policies | | 25,000.00 | 50,000.00 | | \$25,000.00 | | | | | |
| Total second year | \$450,000.00 | \$115,000.00 | \$155,000.00 | \$80,000.00 | \$55,000.00 | \$30,000.00 | \$30,000.00 | \$15,000.00 | \$15,000.00 | \$15,000.00 |
| 1 year policies | \$210,000.00 | | | | | | | | | |
| 3 year policies | | 150,000.00 | | | | | | | | |
| 5 year policies | | 15,000.00 | 30,000.00 | | 30,000.00 | | | | | |
| Total third year | \$630,000.00 | \$210,000.00 | \$380,000.00 | \$217,000.00 | \$112,000.00 | \$77,000.00 | \$42,000.00 | \$42,000.00 | \$21,000.00 | \$21,000.00 |
| 1 year policies | \$210,000.00 | | | | | | | | | |
| 3 year policies | | 210,000.00 | | | | | | | | |
| 5 year policies | | 210,000.00 | | | | | | | | |
| Total fourth year | \$630,000.00 | \$161,000.00 | \$502,000.00 | \$380,000.00 | \$217,000.00 | \$112,000.00 | \$77,000.00 | \$42,000.00 | \$42,000.00 | \$21,000.00 |
| 1 year policies | \$210,000.00 | | | | | | | | | |
| 3 year policies | | 210,000.00 | | | | | | | | |
| 5 year policies | | 210,000.00 | | | | | | | | |
| Total fifth year | \$630,000.00 | \$161,000.00 | \$502,000.00 | \$380,000.00 | \$217,000.00 | \$112,000.00 | \$77,000.00 | \$42,000.00 | \$42,000.00 | \$21,000.00 |
| 1 year policies | \$210,000.00 | | | | | | | | | |
| 3 year policies | | 210,000.00 | | | | | | | | |
| 5 year policies | | 210,000.00 | | | | | | | | |
| Total | \$2,700,000.00 | \$92,000.00 | \$239,000.00 | \$380,000.00 | \$502,000.00 | \$448,000.00 | \$246,000.00 | \$140,000.00 | \$63,000.00 | \$21,000.00 |

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In the following statement, the annual commission cost is based upon 25% of the estimated yearly premium income.

In addition to the estimate of income and expense (exhibit "A", page 218), the candidate is required to show "how much higher a ratio than 50% the company could bear each year without impairing its capital". These ratios, or percentages, presented in exhibit "B", are obtained by applying the annual net income or loss, shown in exhibit "A", to the surplus account at the beginning of each year to arrive at the year-end surplus which is in turn divided by the annual premium income earned.

Exhibit "B"

Statement Showing the Estimated Additional Fire Loss Ratio Possible

| Year | Surplus at beginning of year | Net income or net loss* for year | Surplus at end of year | Premium income earned | Additional possible fire loss ratio |
|--------------|------------------------------------|--|------------------------------|-----------------------------|--|
| First | \$250,000.00 | \$104,000.00* | \$146,000.00 | \$92,000.00 | 158.70% |
| Second | 146,000.00 | 43,000.00* | 103,000.00 | 239,000.00 | 43.10 |
| Third | 103,000.00 | 7,500.00* | 95,500.00 | 380,000.00 | 25.13 |
| Fourth | 95,500.00 | 53,500.00 | 149,000.00 | 502,000.00 | 29.68 |
| Fifth | 149,000.00 | 87,000.00 | 236,000.00 | 569,000.00 | 41.48 |

No. 2 (48 points):

You are requested to make a balance-sheet audit of the records of the Arctic Fisheries Corporation, operating fish canneries on Puget Sound and the coast of Alaska.

This corporation has been in operation for one year, having acquired the properties of the Alaska Fisheries Corporation on December 31, 1925, at an agreed price, subsequent to an appraisal of all fixed assets.

A condensed list of balances, as at December 31, 1926, is presented as follows:

| | Dr. | Cr. |
|-----------------------------------|-------------|-------------|
| Cash in banks and on hand..... | \$167,163 | |
| Accounts receivable, trade..... | 140,980 | |
| Inventory—canned salmon..... | 102,412 | |
| Inventory—supplies..... | 25,615 | |
| Advances to fishermen..... | 66,965 | |
| Real estate..... | 122,500 | |
| Buildings..... | 518,213 | |
| Labels, trademarks, etc..... | 24,000 | |
| Equipment..... | 325,337 | |
| Ships..... | 330,000 | |
| Cost of sales..... | 1,366,812 | |
| Selling expenses..... | 42,617 | |
| Discounts allowed..... | 10,614 | |
| Administrative expenses..... | 47,886 | |
| Depreciation expense..... | 30,807 | |
| Interest on bonds..... | 15,000 | |
| Accounts payable..... | | \$127,320 |
| Accrued taxes..... | | 14,219 |
| Reserve for bad debts..... | | 11,646 |
| Reserve for depreciation..... | | 30,807 |
| Bonded municipal assessments..... | | 12,500 |
| Six per cent. gold bonds..... | | 500,000 |
| Sales—canned salmon..... | | 1,615,429 |
| Capital..... | | 1,000,000 |
| Capital surplus..... | | 25,000 |
| | \$3,336,921 | \$3,336,921 |

Exhibit "A."

Statement Showing Estimated Income and Expense

| | First year | Second year | Third year | Fourth year | Fifth year | Total |
|--|---------------|----------------|---------------|----------------|---------------|----------------|
| Premium income..... | \$360,000.00 | \$450,000.00 | \$630,000.00 | \$630,000.00 | \$630,000.00 | \$2,700,000.00 |
| Less—Reserve for unearned premiums..... | 268,000.00 | 211,000.00 | 250,000.00 | 128,000.00 | 61,000.00 | 918,000.00 |
| Premium income earned..... | \$92,000.00 | \$239,000.00 | \$380,000.00 | \$502,000.00 | \$569,000.00 | \$1,782,000.00 |
| Add: | | | | | | |
| Interest on investments..... | 40,000.00 | 50,000.00 | 60,000.00 | 60,000.00 | 60,000.00 | 270,000.00 |
| Total income..... | \$132,000.00 | \$289,000.00 | \$440,000.00 | \$562,000.00 | \$629,000.00 | \$2,052,000.00 |
| Deduct: | | | | | | |
| Commission cost (25% of premium in- come)..... | \$90,000.00 | \$112,500.00 | \$157,500.00 | \$157,500.00 | \$157,500.00 | \$675,000.00 |
| Other operating expenses..... | 100,000.00 | 100,000.00 | 100,000.00 | 100,000.00 | 100,000.00 | 500,000.00 |
| Fire losses (50% of premium income earned)..... | 46,000.00 | 119,500.00 | 190,000.00 | 251,000.00 | 284,500.00 | 891,000.00 |
| Total..... | \$236,000.00 | \$332,000.00 | \$447,500.00 | \$508,500.00 | \$542,000.00 | \$2,066,000.00 |
| Net income | \$104,000.00* | \$43,000.00* | \$7,500.00* | \$53,500.00 | \$87,000.00 | \$14,000.00* |

* Red figures.

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In the course of your audit, the following facts are disclosed:

(1) On December 20, 1926, a dividend of 5% on outstanding capital stock, payable January 2, 1927, was declared by the directors.

(2) Cheques were drawn during the first ten days of January, 1927, but were entered in the cashbook under date of December 31, 1926, and applied as follows: on accounts payable \$47,036 and for wages \$6,739.

(3) During the year, salesmen and other employees had borrowed money from the corporation amounting to \$20,000 which was offset by personal cheques received and deposited in the company's bank on January 6, 1927, and entered in the cash-book under date of December 31, 1926. An amount of \$10,642 was also collected in the early part of January, 1927, on accounts receivable and this was handled in like manner.

(4) The bonds were secured by a first mortgage on all real estate, buildings, equipment and other fixed assets and carried interest at the rate of 6% per annum, payable semi-annually on January 1st and July 1st. The trust deed contained the following provisions:

- (a) That net current assets of \$250,000 must be maintained and in no event shall current assets be less than twice the current liabilities.
- (b) Current assets to include cash, good current and collectible trade accounts and trade notes receivable, also fishermen's accounts and all inventories.
- (c) Current liabilities to include all liabilities except bonds and un-matured instalments on property liens.

(5) Reviewing the operating items for previous years, you find that annual depreciation expense on the old company's statements is approximately the same as for the year 1926, viz.: \$30,807, although the fixed asset values are much larger on the new company's books in accordance with the appraisal. Further inspection shows that the rates of depreciation used by the old company (which were considered proper) have been reduced 50% in computing depreciation for 1926, so that the depreciation expense will not be increased as the result of the increase in asset values.

(6) From an analysis of the "ships" account and from information furnished, you find that the following vessels were taken over, at book value, from the old company: steamships Issaquah \$40,000, Klondike \$40,000 and Dawson \$35,000; sailing ships Juneau \$15,000 and Skagway \$10,000; gasoline boat Mermaid \$25,000. The sailing vessels had been discarded in 1925 and, although valued at \$25,000, had a scrap value of not more than \$3,500.

In December, 1926, the company purchased two steamers: the Senator costing \$90,000 and the Nome \$75,000. These boats took the place of all the old equipment which was offered for sale and realized prices in January, 1927, as follows: Issaquah \$10,000, Dawson \$8,000 and Mermaid \$12,000. The Klondike (a sister ship of the Issaquah), the Juneau and the Skagway were retained.

Depreciation on boats was taken, during 1926, as follows: Issaquah \$1,000, Klondike \$1,000, Dawson \$875 and Mermaid \$625, a total of \$3,500.

It is claimed by the directors that the loss to be sustained on the replacing of the old boats would be more than offset by the appreciation in value of the new steamers, which were bought at a bargain, and you are shown a valuation by a trustworthy appraiser rating these vessels as follows: the Senator \$225,000 and the Nome \$200,000.

(7) Included in "advances to fishermen," you find charges for nets, etc., amounting to \$20,146. These represent the property of the company. The nets, etc., are lent to the fishermen and debited to their accounts as a matter of record. The fishermen are required to maintain the nets in good condition.

From the foregoing data, make what adjusting journal entries you consider necessary. Prepare and submit a balance-sheet with any comments you think appropriate.

It is impossible from the facts given in the problem to determine what should be the proper charge to depreciation expense for the year 1926. Since the rates

have been reduced 50% while the amount of depreciation has remained approximately the same as for the previous years, it follows that the new base, presumably the appraised values at which the assets were acquired, must be approximately twice the amount of the base previously used, which was, presumably, the original cost of the assets. However, since no reserve for depreciation appears to have been on the books at January 1, 1926, the appraisal values must have represented sound values, that is, reproduction cost new, less accrued depreciation. There is no way of ascertaining the excess of this appraisal value over the old book value of these assets. Neither can the remaining life of the assets be ascertained.

Since the appraised values of the fixed assets placed upon the books appear to be approximately twice the amount of the original cost or other basis used in previous years for computing depreciation, twice as many years as were originally estimated to be the useful life of these assets would be required to write off such appraised values, if the same amount were provided for depreciation each year as for those previous years. The amount of the provision for depreciation must, therefore, be at least double the amount which has been charged for 1926 in respect of the appraised assets. But to double the amount of depreciation charged in respect of such fixed assets for 1926 would result in writing off the assets as carried on the books only over a period equal to the originally estimated life thereof. Since the remaining life is unquestionably something less than that, the amount of depreciation provided for each year would have to be more than double the amount charged to expense for 1926 by an amount which can not be determined without knowing the remaining life of the assets.

It would seem probable that the rates of depreciation were not reduced in the case of ships, in view of the fact that they were taken over at book value, and, consequently, it would not appear necessary to increase the amount of the provision for depreciation of ships.

Since a proper charge for depreciation can not be determined, on account of the difficulties described, no change is made, in this solution, in the amount of depreciation charged to expense for the year 1926, and the balance-sheet is qualified accordingly.

Several questions arise in the valuation of the ships. Although the problem states that all fixed assets were included in the appraisal, the appraised values of the ships acquired from the Alaska Fisheries Corporation are not given and were not the values used in taking over the vessels. Other information must, accordingly, be relied upon to determine the values of the ships for balance-sheet purposes. In the case of the sailing vessels discarded in 1925, it seems evident that scrap value should be used.

There may be some question as to whether or not the old ships which were sold in January, 1927, should be written down as of December 31, 1926, to their realizable value as indicated by the selling prices obtained in January. Were these ships to be retained and used by the company, it might be permissible to continue to carry them at their book value on the theory that, with respect to assets in use, no changes in the valuations at which they are carried need be made on account of fluctuations in the market value of such assets. However, the problem states that the two new steamers "took the place of all the old equipment which was offered for sale." The old ships were, therefore,

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taken out of the category of assets in use and placed in that of assets held for sale. In the case of such assets a different rule applies and it would seem that the only proper basis of valuation thereof would be that of estimated realizable value. With respect to the ships sold, therefore, their selling prices in January, 1927, are the valuations used.

The Klondike, although a sister ship of the Issaquah and possibly of no greater value, was retained by the company and, in accordance with what has been said in the preceding paragraph, would be subject to inclusion in the balance-sheet at book value. However, the valuation should be qualified in view of the facts relating to its sister ship.

The valuation, for balance-sheet purposes, of the Klondike should also be considered in the valuation to be shown for the two new steamers which have been appraised at values considerably in excess of their cost at which they have been entered and carried on the books. In reply to any claim, on the part of the directors, that appraised values should be used in the case of the new steamers, the auditor, it would seem, should take the position that either (1) the Klondike must be included in the appraisal and the appraised values, sanctioned by the board of directors for book and balance-sheet purposes, included in the balance-sheet with proper qualification, or (2) the appraised valuation of the new steamers must be ignored for balance-sheet purposes, and book value shown for all the vessels, with such qualification or comment as may be deemed appropriate.

The liability for federal income taxes would undoubtedly have to be included among the current liabilities for the purpose of determining the amount of the net current assets and the ratio of current assets to current liabilities in ascertaining whether or not the requirements of the trust deed were met. However, it is impossible to determine the tax liability without knowing the amount of the allowable deduction for depreciation. Since that is not ascertainable, no provision has been made for such taxes in this solution, and the balance-sheet has been qualified accordingly.

There is some question as to the legality of the dividend declared by the board of directors on December 20, 1926. Inasmuch, however, as the declaration was made and there is no evidence of any move to rescind such action, the amount of the dividend is shown as a liability.

ARCTIC FISHERIES CORPORATION

Adjusting journal entries December 31, 1926

(1)

| | | |
|--|-------------|-------------|
| Surplus..... | \$50,000.00 | |
| Dividends payable..... | | \$50,000.00 |
| To record dividend of 5% on outstanding capital stock declared by the board of directors December 20, 1926, payable January 2, 1927. | | |

(2)

| | | |
|--------------------------------|-----------|-----------|
| Cash in banks and on hand..... | 53,775.00 | |
| Accounts payable..... | | 47,036.00 |
| Cost of sales..... | | 6,739.00 |

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To correct error in entering as of December 31, 1926, cheques drawn during the first ten days of January, 1927.

(3)

| | | |
|---------------------------------|-------------|-------------|
| Due from employees | \$20,000.00 | |
| Cash in banks and on hand | | \$20,000.00 |

To correct error in entering as of December 31, 1926, cheques received from employees and deposited in the bank on January 6, 1927.

(4)

| | | |
|----------------------------------|-----------|-----------|
| Accounts receivable, trade | 10,642.00 | |
| Cash in banks and on hand | | 10,642.00 |

To correct error in entering as of December 31, 1926, the amounts collected in the early part of January, 1927.

(5)

| | | |
|-------------------------|-----------|-----------|
| Interest on bonds | 15,000.00 | |
| Accrued interest | | 15,000.00 |

To record interest accrued on bonds, payable January 1, 1927.

(6)

| | | |
|--------------------------------|-----------|-----------|
| Capital surplus | 25,000.00 | |
| Surplus | | 64,000.00 |
| Reserve for depreciation | | 2,500.00 |
| Ships | | 91,500.00 |

To write down the book value of the following ships to their scrap value or to amounts realized from the sale thereof in January, 1927:

| | Book value | Selling price | Amount written off |
|----------------|-------------------|---------------|--------------------|
| | December 31, 1926 | | |
| Issaquah | \$39,000.00 | \$10,000.00 | \$29,000.00 |
| Dawson | 34,125.00 | 8,000.00 | 26,125.00 |
| Mermaid | 24,375.00 | 12,000.00 | 12,375.00 |
| | | \$30,000.00 | |

| | Book value | Scrap value | |
|--------------------------|-------------------|-------------|-------------|
| | December 31, 1926 | | |
| Juneau and Skagway | \$25,000.00 | \$3,500.00 | \$21,500.00 |
| Together | \$122,500.00 | \$33,500.00 | \$89,000.00 |

(7)

| | | |
|-----------------------------|-----------|-----------|
| Nets | 20,146.00 | |
| Advances to fishermen | | 20,146.00 |

To transfer to "nets" account charges for nets which are lent to fishermen.

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| | | |
|---|-------------|-------------|
| (8) | | |
| Ships not in use..... | \$33,500.00 | |
| Ships..... | | \$33,500.00 |
| <p style="margin-left: 20px;">To transfer to a separate account the following ships which have been discarded or replaced and offered for sale:</p> | | |
| Issaquah..... | \$10,000.00 | |
| Dawson..... | 8,000.00 | |
| Mermaid..... | 12,000.00 | |
| Juneau and Skagway..... | 3,500.00 | |
| | | |

| | | |
|--|-----------|-----------|
| (9) | | |
| Reserve for depreciation | 28,307.00 | |
| Reserve for depreciation—ships..... | | 1,000.00 |
| Reserve for depreciation—buildings and equipment..... | | 27,307.00 |
| <p style="margin-left: 20px;">To segregate the reserve for depreciation of ships from the reserve for depreciation of buildings and equipment.</p> | | |

ARCTIC FISHERIES CORPORATION
Working papers for the year ended December 31, 1926

| | Trial balance | | Adjustments | | Profit and loss | | Balance-sheet | |
|-----------------------------------|---------------|----------------|-----------------|-----------------|-----------------|-----|---------------|----------------|
| | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. |
| Cash in banks and on hand..... | \$167,163.00 | | (2) \$53,775.00 | (4) \$10,642.00 | | | \$190,296.00 | |
| Accounts receivable, trade..... | 140,980.00 | | (4) 10,642.00 | | | | 151,622.00 | |
| Inventory—canned salmon..... | 102,412.00 | | | | | | 102,412.00 | |
| Inventory—supplies..... | 25,615.00 | | | | | | 25,615.00 | |
| Advances to fishermen..... | 66,965.00 | | | (7) 20,146.00 | | | 46,819.00 | |
| Real estate..... | 122,500.00 | | | | | | 122,500.00 | |
| Buildings..... | 518,213.00 | | | | | | 518,213.00 | |
| Labels, trademarks, etc..... | 24,000.00 | | | | | | 24,000.00 | |
| Equipment..... | 325,337.00 | | | | | | 325,337.00 | |
| Ships..... | 330,000.00 | | | | | | | 205,000.00 |
| Cost of sales..... | 1,366,812.00 | | | (8) 33,500.00 | | | | |
| Selling expenses..... | 42,617.00 | | | (6) 91,500.00 | | | | |
| Discounts allowed..... | 10,614.00 | | | (2) 6,739.00 | \$1,360,073.00 | | | |
| Administrative expenses..... | 47,886.00 | | | | 42,617.00 | | | |
| Depreciation expense..... | 30,807.00 | | | | 10,614.00 | | | |
| Interest on bonds..... | 15,000.00 | | (5) 15,000.00 | | 47,886.00 | | | |
| Accounts payable..... | | \$127,320.00 | | (2) 47,036.00 | | | | \$174,356.00 |
| Accrued taxes..... | | 14,219.00 | | | | | | 14,219.00 |
| Reserve for bad debts..... | | 11,646.00 | | | | | | 11,646.00 |
| Reserve for depreciation..... | | 30,807.00 | (9) 28,307.00 | | | | | |
| | | (6) 2,500.00 | | | | | | |
| Bonded municipal assessments..... | | 12,500.00 | | | | | | 12,500.00 |
| Six per cent gold bonds..... | | 500,000.00 | | | | | | 500,000.00 |
| Sales—canned salmon..... | | 1,615,429.00 | | | | | | |
| Capital..... | | 1,000,000.00 | | | | | | |
| Capital surplus..... | | 25,000.00 | (6) 25,000.00 | | | | | 1,000,000.00 |
| | | \$3,336,921.00 | | | | | | \$1,615,429.00 |
| | | \$3,336,921.00 | | | | | | |

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| | | | | | |
|---|-----|--------------|-----|----------------|----------------|
| Surplus..... | | | | | |
| Dividends payable..... | (6) | 64,000.00 | | | |
| Due from employees..... | (1) | 50,000.00 | (1) | 50,000.00 | 50,000.00 |
| Accrued interest..... | (3) | 20,000.00 | (5) | 15,000.00 | 15,000.00 |
| Ships not in use..... | (8) | 33,500.00 | | | 33,500.00 |
| Nets..... | (7) | 20,146.00 | (9) | 1,000.00 | 1,000.00 |
| Reserve for depreciation—ships.... | | | (9) | 27,307.00 | 27,307.00 |
| Reserve for depreciation—buildings and equipment..... | | | | | |
| | | \$322,870.00 | | \$322,870.00 | |
| Net profit for year before provision for federal income taxes..... | | | | 93,432.00 | 93,432.00 |
| | | | | \$1,615,429.00 | \$1,899,460.00 |
| | | | | \$1,899,460.00 | \$1,899,460.00 |

ARCTIC FISHERIES CORPORATION
Balance-sheet, December 31, 1926

| Assets | | Liabilities and Net Worth |
|--|----------------|---------------------------|
| Current Assets: | | |
| Cash in banks and on hand | \$190,296.00 | |
| Accounts receivable, trade | \$151,622.00 | |
| Less: | | |
| Reserve for bad debts | 11,646.00 | |
| Advances to fishermen | 46,819.00 | |
| Inventories: | | |
| Canned salmon | \$102,412.00 | |
| Supplies | 25,615.00 | |
| Due from employees | 20,000.00 | |
| Fixed assets: | | |
| Real estate | \$122,500.00 | |
| Buildings and equipment: | | |
| Buildings | \$518,213.00 | |
| Equipment | 325,337.00 | |
| Nets | 20,146.00 | |
| Less: Reserve for depreciation | 27,307.00 | |
| Ships— | | |
| "Senator" | \$90,000.00 | |
| "Nome" | 75,000.00 | |
| "Klondike" | 40,000.00 | |
| Less: Reserve for depreciation | \$1,000.00 | |
| Total | \$205,000.00 | |
| Labels, trademarks, etc. | 24,000.00 | |
| Assets not in use: | | |
| Ships discarded or replaced and held for sale (at estimate realizable value) | 33,500.00 | |
| Total | \$1,745,507.00 | |
| | | |
| Current liabilities: | | |
| Accounts payable | \$174,356.00 | |
| Accrued taxes | 14,219.00 | |
| Accrued interest | 15,000.00 | |
| Dividends payable January 2, 1927 | 50,000.00 | |
| Bonded municipal assessments | \$253,575.00 | |
| Six per cent gold bonds | 12,500.00 | |
| Net worth: | | |
| Capital | \$1,000,000.00 | |
| Deficit— | | |
| Loss from adjustment of value of ships not in use to estimate realizable value | \$89,000.00 | |
| Dividends | 50,000.00 | |
| Total | \$139,000.00 | |
| Deduct: | | |
| Capital surplus | \$25,000.00 | |
| Net profit for year ended December 31, 1926, before provision for federal income taxes (subject to adequacy of the provision for depreciation) | 93,432.00 | |
| Total | 118,432.00 | |
| Less: | | |
| Capital surplus | 20,568.00 | |
| Total | 979,432.00 | |
| Total | \$1,745,507.00 | |

We have made an examination of the accounts of Arctic Fisheries Corporation for the purpose of verifying the financial condition of the company at December 31, 1926.

In the above balance-sheet, the ships in service are reflected at cost less depreciation. The ships Senator and Nome have been appraised by (name) as of (date) at \$225,000.00 and \$200,000.00 respectively. A sister ship of the Klondike has recently been disposed of for \$10,000.00. All other fixed assets are shown at cost less depreciation.

We hereby certify that, in our opinion, subject to the foregoing qualifications, and to the liability for federal income tax and the adequacy of the depreciation provision for the year ended December 31, 1926, the above balance-sheet reflects the financial condition of the company of that date.

Date

Signed

Students' Department

AMORTIZATION OF BONDS

Editor, The Journal of Accountancy.

SIR: As an old subscriber to your magazine I am asking for information on a point which has been bothering me.

An issue of \$175,000, 6½% bonds was sold for 95, the amount of the discount being \$8,750. Other expenses pertaining to the issue of the bonds amounted to \$596.67, making the total of bond discount and expense \$9,346.67. These bonds are dated March 30, 1926, and are due according to the following schedule.

| | |
|----------------------------|-----------------------------|
| \$3,500 due April 15, 1928 | 14,500 due April 15, 1934 |
| 5,000 due April 15, 1929 | 15,000 due April 15, 1935 |
| 7,000 due April 15, 1930 | 30,000 } due April 15, 1936 |
| 8,000 due April 15, 1931 | 66,000 } due April 15, 1936 |
| 10,000 due April 15, 1932 | 4,000 } due April 15, 1936 |
| 12,000 due April 15, 1933 | |

The odd half month over and above the even years somewhat complicates the matter.

I have found no reference in my library which helps me materially in calculating the annual charge for amortization of these bonds. Will you be good enough to inform me what is the proper method of computing this charge?

One reason why an exact calculation is necessary is that the period to January 1, 1927, is a period of construction and it is desired to have a proper proportion of this expense charged to the cost of the building as interest during construction.

Any information that you may be able to give me will be greatly appreciated.

Yours very truly,

H. C. F.

Mr. H. C. F.

Dear Sir: The problem of determining a correct amortization of the discount and expense applicable to the \$175,000.00, par value, of 6½% bonds is an interesting one because of the fractional interest period and the serial maturities.

A sufficiently accurate amortization for most purposes can be obtained by the "bonds outstanding" method, which is illustrated in the first two columns of the accompanying exhibit A (pages 228 and 229). The first column shows the par value of the bonds outstanding during the periods ending on the respective dates indicated. The total discount and expense of \$9,346.67 is apportioned to the several periods in the ratio of the par value of the bonds outstanding during those periods. However, since the period ended April 15, 1926, is only half a month, the \$175,000 is divided by twelve to obtain \$14,583, which gives the bonds outstanding during that half month period a weight of one-twelfth of an equal number of bonds outstanding for six months. The total of column 1 does not include the first \$175,000 but does include its weighted value of \$14,583.

If a scientifically accurate amortization is desired by using an effective interest rate, the rate can be computed by repeated approximations, as shown in exhibit A. This computation is not as tedious as it appears, since the work can be done on a computing machine.

Column 4 begins with the net proceeds of the bonds, \$165,653.33, and this amount is then weighted by dividing by twelve. The remaining figures in this column are obtained by adding the discount and expense amortization shown in column 2. A first trial rate is obtained by dividing the total interest, discount and expense of \$106,345.63, computed in exhibit B, by the total of column 4. The apportionment of interest and discount expense shown in

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Exhibit A

Computation of effective
First approximation

| | Bonds outstanding (1) | Discount amortized B. O. method (2) | Payments on princi- pal (3) | Effective principal (4) | Interest and discount expense (5) | Cash interest (6) |
|---------------------|-----------------------------|---|--------------------------------------|-------------------------------|--|-------------------------|
| Apr. 15, 1926 | \$175,000.00 | | | \$165,653.33 | | |
| Oct. 15, 1926 | \$14,583.00 ^a | \$45.67 | | \$13,804.44 ^b | \$507.12 | \$473.96 |
| Apr. 15, 1927 | 175,000.00 | 548.04 | | 165,699.00 ^a | 6,087.17 | 5,687.50 |
| Oct. 15, 1927 | 175,000.00 | 548.04 | | 166,247.04 ^d | 6,017.30 | 5,687.50 |
| Apr. 15, 1928 | 175,000.00 | 548.04 | \$3,500.00 | 166,795.08 | 6,127.43 | 5,687.50 |
| Oct. 15, 1928 | 171,500.00 | 537.08 | | 167,343.12 | 6,147.57 | 5,687.50 |
| Apr. 15, 1929 | 171,500.00 | 537.08 | 5,000.00 | 164,928.24 | 6,058.85 | 5,573.75 |
| Oct. 15, 1929 | 166,500.00 | 521.42 | | 160,465.32 | 5,894.90 | 5,411.25 |
| Apr. 15, 1930 | 166,500.00 | 521.42 | 7,000.00 | 160,986.74 | 5,914.60 | 5,411.25 |
| Oct. 15, 1930 | 159,500.00 | 499.50 | | 154,508.16 | 5,676.06 | 5,183.75 |
| Apr. 15, 1931 | 159,500.00 | 499.50 | 8,000.00 | 155,007.66 | 5,694.41 | 5,183.75 |
| Oct. 15, 1931 | 151,500.00 | 474.44 | | 147,507.16 | 5,418.87 | 4,923.75 |
| Apr. 15, 1932 | 151,500.00 | 474.44 | 10,000.00 | 147,981.60 | 5,436.30 | 4,923.75 |
| Oct. 15, 1932 | 141,500.00 | 443.13 | | 138,456.04 | 5,086.36 | 4,598.75 |
| Apr. 15, 1933 | 141,500.00 | 443.13 | 12,000.00 | 138,899.17 | 5,102.64 | 4,598.75 |
| Oct. 15, 1933 | 129,500.00 | 405.55 | | 127,342.30 | 4,678.09 | 4,208.75 |
| Apr. 15, 1934 | 129,500.00 | 405.55 | 14,500.00 | 127,747.85 | 4,692.98 | 4,208.75 |
| Oct. 15, 1934 | 115,000.00 | 360.13 | | 113,653.40 | 4,175.21 | 3,737.50 |
| Apr. 15, 1935 | 115,000.00 | 360.13 | 15,000.00 | 114,013.53 | 4,188.44 | 3,737.50 |
| Oct. 15, 1935 | 100,000.00 | 313.17 | | 99,373.66 | 3,650.62 | 3,250.00 |
| Apr. 15, 1936 | 100,000.00 | 313.17 | 100,000.00 | 99,686.83 | 3,662.13 | 3,250.00 |
| | \$2,984,583.00 | \$9,346.67 | | \$2,894,837.50 | \$106,345.63 | \$96,998.96 |

^a 175,000 ÷ 12 = 14,583

Trial rates

3.67363038%

^b $\frac{175,000 - 9,346.67}{12} = 13,804.44$

^c 165,653.33 + 45.67

^d 165,699.00 + 548.04

^e 167,343.12 + 548.04 - 3,500

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rate by approximations

| Second approximation | | Third approximation | | Fourth approximation | | Fifth approximation | |
|-------------------------|-----------------------------------|-------------------------|------------------------------------|--------------------------|------------------------------------|--------------------------|------------------------------------|
| Effective principal (7) | Interest and discount expense (8) | Effective principal (9) | Interest and discount expense (10) | Effective principal (11) | Interest and discount expense (12) | Effective principal (13) | Interest and discount expense (14) |
| <u>\$165,653.33</u> | | <u>\$165,653.33</u> | | <u>\$165,653.33</u> | | <u>\$165,653.33</u> | |
| \$13,804.44 | \$508.67 | \$13,804.44 | \$508.62 | \$13,804.44 | \$508.61 | \$13,804.44 | \$508.61 |
| 165,686.49 | 6,105.28 | 165,688.04 | 6,104.74 | 165,687.99 | 6,104.60 | 165,687.98 | 6,104.62 |
| 166,086.16 | 6,120.01 | 166,105.82 | 6,120.13 | 166,105.23 | 6,119.98 | 166,105.08 | 6,199.99 |
| 166,505.96 | 6,135.48 | 166,538.33 | 6,136.07 | 166,537.86 | 6,135.92 | 166,537.56 | 6,135.92 |
| 166,945.89 | 6,151.69 | 166,986.31 | 6,152.57 | 166,986.43 | 6,152.45 | 166,985.98 | 6,152.44 |
| 163,905.96 | 6,039.67 | 163,950.50 | 6,040.72 | 163,951.50 | 6,040.63 | 163,950.93 | 6,040.62 |
| 164,371.33 | 6,056.82 | 164,416.42 | 6,057.88 | 164,418.47 | 6,057.83 | 164,417.81 | 6,057.82 |
| 159,856.43 | 5,890.45 | 159,899.49 | 5,891.46 | 159,902.60 | 5,891.45 | 159,901.89 | 5,891.44 |
| 160,340.08 | 5,908.27 | 160,378.69 | 5,909.12 | 160,382.81 | 5,909.14 | 160,382.09 | 5,909.13 |
| 153,842.89 | 5,668.86 | 153,875.71 | 5,669.51 | 153,880.68 | 5,669.58 | 153,879.98 | 5,669.57 |
| 154,335.20 | 5,687.00 | 154,360.82 | 5,687.39 | 154,366.44 | 5,687.48 | 154,365.81 | 5,687.47 |
| 146,845.86 | 5,411.03 | 146,864.07 | 5,411.17 | 146,870.08 | 5,411.28 | 146,869.54 | 5,411.27 |
| 147,340.98 | 5,429.28 | 147,351.35 | 5,429.13 | 147,357.50 | 5,429.24 | 147,357.07 | 5,429.23 |
| 137,853.53 | 5,079.68 | 137,856.88 | 5,079.30 | 137,862.88 | 5,079.42 | 137,862.56 | 5,079.42 |
| 138,341.14 | 5,097.65 | 138,337.81 | 5,097.02 | 138,343.43 | 5,097.12 | 138,343.23 | 5,097.13 |
| 126,845.03 | 4,674.04 | 126,836.71 | 4,673.27 | 126,841.70 | 4,673.35 | 126,841.60 | 4,673.36 |
| 127,314.37 | 4,691.33 | 127,302.00 | 4,690.41 | 127,306.22 | 4,690.47 | 127,306.20 | 4,690.48 |
| 113,298.60 | 4,174.87 | 113,284.58 | 4,173.94 | 113,287.88 | 4,173.98 | 113,287.92 | 4,173.99 |
| 113,736.31 | 4,191.00 | 113,721.95 | 4,190.05 | 113,724.32 | 4,190.06 | 113,724.40 | 4,190.07 |
| 99,187.25 | 3,654.89 | 99,175.45 | 3,654.10 | 99,176.87 | 3,654.07 | 99,176.96 | 3,654.08 |
| 99,587.87 | 3,669.65 | 99,580.34 | 3,669.01 | 99,580.97 | 3,668.96 | 99,581.03 | 3,668.97 |
| <u>\$2,886,031.77</u> | <u>\$106,345.62</u> | <u>\$2,886,315.71</u> | <u>\$106,345.61</u> | <u>\$2,886,376.30</u> | <u>\$106,345.62</u> | <u>\$2,886,370.06</u> | |
| 3.6848392% | | 3.6844767% | | 3.68439936% | | 3.68440732% | |

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column 5 was obtained by multiplying the respective amounts in column 4 by the first trial rate.

Second approximations are obtained as follows: starting with the proceeds of \$165,653.33, add the interest and discount expense shown in column 5 and deduct the cash interest and payments on principal shown in columns 6 and 3 to obtain the second approximation of effective principal shown in column 7; divide the total interest and discount expense of \$106,345.63 by the total of column 7 to obtain the second trial rate; apply this rate to the amounts shown in column 7 to obtain the amounts shown in column 8.

This procedure is continued until we find that the differences between the amounts shown in columns 12 and 14 are of trifling amounts, and the final approximation of the rate is obtained by dividing the total interest and discount expense by the total of column 13.

The accuracy of the rate thus obtained is shown by the schedule of amortization in exhibit B, which has a final error of only two cents.

The total interest and amortization chargeable to construction during the period prior to January 1, 1927 will be as follows:

| | |
|---|------------|
| For the 15 days ended April 15, 1926 | \$508.61 |
| For the 6 months ended October 15, 1926 | 6,104.62 |
| For the 2½ months ended December 31, 1926 $\frac{2.5}{6}$ of \$6,119.99 . . | 2,550.00 |
| | \$9,163.23 |

Yours truly,

H. A. FINNEY.

Exhibit "B"

Computation of total interest and discount charge and first approximation of effective rate

| | | Interest |
|--|-----------|--------------|
| March 30, 1926 to April 15, 1928—2 Years—15 days | \$175,000 | \$23,223.96 |
| April 15, 1928 " " 15, 1929 1 Year | 171,500 | 11,147.50 |
| " 15, 1929 " " 15, 1930 1 " | 166,500 | 10,822.50 |
| " 15, 1930 " " 15, 1931 1 " | 159,500 | 10,367.50 |
| " 15, 1931 " " 15, 1932 1 " | 151,500 | 9,847.50 |
| " 15, 1932 " " 15, 1933 1 " | 141,500 | 9,197.50 |
| " 15, 1933 " " 15, 1934 1 " | 129,500 | 8,417.50 |
| " 15, 1934 " " 15, 1935 1 " | 115,000 | 7,475.00 |
| " 15, 1935 " " 15, 1936 1 " | 100,000 | 6,500.00 |
| | | |
| Total interest | | \$96,998.96 |
| Discount and expense | | 9,346.67 |
| | | \$106,345.63 |

First trial rate = $\$106,345.63 \div \$2,894,837.50 = 3.67363038\%$

Students' Department

Exhibit "C"

Schedule of amortization at effective rate of 3.68440732% per six months

| | Debit for interest and discount | Credit for cash interest | Credit for discount amortized | Bonds paid | Effective principal |
|---------------------|---------------------------------------|--------------------------------|--|------------------|------------------------|
| Mar. 30, 1926 | | | | | \$165,653.33 |
| Apr. 15, 1926 | \$508.61 | \$473.96 | \$34.65 | | 165,687.98 |
| Oct. 15, 1926 | 6,104.62 | 5,687.50 | 417.12 | | 166,105.10 |
| Apr. 15, 1927 | 6,119.99 | 5,687.50 | 432.49 | | 166,537.59 |
| Oct. 15, 1927 | 6,135.92 | 5,687.50 | 448.42 | | 166,986.01 |
| Apr. 15, 1928 | 6,152.44 | 5,687.50 | 464.94 | \$3,500 | 163,950.95 |
| Oct. 15, 1928 | 6,040.62 | 5,573.75 | 466.87 | | 164,417.82 |
| Apr. 15, 1929 | 6,057.82 | 5,573.75 | 484.07 | 5,000 | 159,901.89 |
| Oct. 15, 1929 | 5,891.44 | 5,411.25 | 480.19 | | 160,382.08 |
| Apr. 15, 1930 | 5,909.13 | 5,411.25 | 497.88 | 7,000 | 153,879.96 |
| Oct. 15, 1930 | 5,669.56 | 5,183.75 | 485.81 | | 154,365.77 |
| Apr. 15, 1931 | 5,687.46 | 5,183.75 | 503.71 | 8,000 | 146,869.48 |
| Oct. 15, 1931 | 5,411.27 | 4,923.75 | 487.52 | | 147,357.00 |
| Apr. 15, 1932 | 5,429.23 | 4,923.75 | 505.48 | 10,000 | 137,862.48 |
| Oct. 15, 1932 | 5,079.42 | 4,598.75 | 480.67 | | 138,343.15 |
| Apr. 15, 1933 | 5,097.13 | 4,598.75 | 498.38 | 12,000 | 126,841.53 |
| Oct. 15, 1933 | 4,673.36 | 4,208.75 | 464.61 | | 127,306.14 |
| Apr. 15, 1934 | 4,690.48 | 4,208.75 | 481.73 | 14,500 | 113,287.87 |
| Oct. 15, 1934 | 4,173.99 | 3,737.50 | 436.49 | | 113,724.36 |
| Apr. 15, 1935 | 4,190.07 | 3,737.50 | 452.57 | 15,000 | 99,176.93 |
| Oct. 15, 1935 | 3,654.08 | 3,250.00 | 404.08 | | 99,581.01 |
| Apr. 15, 1936 | 3,668.97 | 3,250.00 | 418.97 | 100,000 | .02* |
| | \$106,345.61 | \$96,998.96 | \$9,346.65 | \$175,000 | |

Book Reviews

PRINCIPLES OF ACCOUNTING, by ERIC L. KOHLER and PAUL L. MORRISON. *A. W. Shaw Co.*, Chicago and New York. 446 pages.

When professors in a school of accounting are also members of a firm of practising public accountants we may expect at their hands a book that combines theory and practice in eminently workable proportions. Such is the case in the present instance, and the book they offer as a text covering the first year of accounting as taught at the Northwestern University school of commerce is all it should be. The mechanics of accounting are clearly taught by precept, illustration and practice, while the theory involved in each step is brought out at the time when it is most likely to stick in the student's mind. He is literally told what to do, how to do it, and why he does it.

The scope of *Principles of Accounting* is best stated in the following excerpts from the preface (p. iv):

"In the first six chapters the fundamental theory of debit and credit journalizing, posting, taking the trial balance and preparing the six-column statement are developed, using the simplest possible journal and ledger. The next section of five chapters brings out the usual possibilities of divided books of original and final entry, controlling accounts and columnar journals being introduced immediately. The voucher system is outlined in chapter X. . . . The next six chapters describe the adjustments leading up to and following the financial statements, with constant reminders to the student that the adjustments are as easily expressed on working papers as on the books, especially in the preparation of monthly statements." (A most practical idea, that!) "A fourth section of six chapters is devoted to the various phases of corporate accounting procedure. . . . The last section of five chapters is one of analysis and interpretation. The significance of assets and liabilities, and their relationships to each other, is dwelt upon at length. Reference is made to the limitations of the accounting record as well as to its possibilities."

The final chapter of the last section deals with the analysis of the financial statements, and might be termed a sort of liaison chapter connecting the first year with the following years' courses. As the authors state it is "necessarily incomplete," and I doubt if the average first-year student would make much out of it though it might serve to whet his appetite for more.

Nevertheless there are some matters of procedure and principle which seem open to criticism or at least to difference of opinion. It may seem hypercritical to take exception to the classification of accounts on page 63, but really when accountants discuss procedure they must use language which is mutually understood. When we speak of an account with a credit balance, we are thinking of its appearance on the balance-sheet. It is quite true that the balance of the cash account, for example, is entered on the credit side in the ledger, but we invariably speak of it as a debit balance, i. e., the balance of debits over credits. And so with other accounts. From the bookkeeping point of view it may seem paradoxical to call it so, but custom is custom, and it is a serious mistake to defy it. Consider for a moment the probable damage to a candidate's mark if a C. P. A. examiner should find in answer to the question "What does a credit balance in the cash account indicate?" the statement "It shows the amount of cash on hand or in bank,"

when the obvious (to the examiner) answer is that it indicates errors in posting, or that the bank account has been overdrawn.

On page 233 the authors treat the donation of a factory site as earned surplus in a way that practically makes it an item of extraneous income which is passed through profit-and-loss to earned surplus. In a footnote this is defended on the ground that it is a closed transaction. I am unable to agree with this. Earned surplus is supposed to be (as the authors correctly state on page 232) "only unwithdrawn operating profits," with its implication that it is available for dividends. Now, the donation of a factory site is certainly not an operating profit, nor is it available for dividends in the ordinary sense since it is impossible to distribute a factory site unless it is sold, or its value may be passed on to the stockholders as a stock dividend. Whether it is a closed transaction or not is irrelevant since it is not an earned profit. Of course it is a closed transaction if the title is absolute, but it sometimes happens that such a donation is subject to reversion of the property in case it is not used for the purpose for which it was donated. In this case it is actually a contingent liability, or at best an item of suspense to be carried indefinitely. I think the customary treatment of it as a capital surplus, clearly so stated on the balance-sheet, is the correct one, though it is proper to merge it into the capital by a stock dividend where the title is absolute. But it is not earned surplus and should not be included therein if for no other reason than the likelihood that it would give rise to continual bickerings with stockholders who would not understand why so large an amount of "surplus" is not distributed to them. Also there is to be considered the nuisance of explanations to income-tax authorities seeking to enforce the penalty for having an excessive surplus.

There is a further error in the footnote referred to in stating that the expenses of moving an established plant to the donated site would be a proper offsetting expense to the profit realized. On the contrary, such portion of the expense as may be incurred in scrapping the old plant should be allocated to the scrap value realized therefrom, and the portion properly due to setting up the plant on the new site is a capital expenditure.

The term "liquidating dividend" has a definite technical meaning in business and financial circles, and while the authors' definition on page 241 is literally correct, it is nevertheless misleading. In its accepted sense a liquidating dividend is one declared by a concern which is going out of business, winding up its affairs and distributing its assets among its stockholders or partners. It is not properly used to describe the distribution of a part of its assets in a going concern where such assets are no longer needed in the business, and a better term for it is an "extra" or a "special" dividend, its particular source being stated in the directors' resolution. It is not only incorrect to call it a liquidating dividend, but it might have a disastrous effect. Fancy the result in the stock market of a "flash" over the ticker that "The X Corporation has this day declared a liquidating dividend"!

The statement of page 334 that "contingent liabilities on the balance-sheet are best shown under a separate caption standing between current liabilities and net worth," is somewhat obscure, but from further explanation on page 335 I gather that they are to be shown "in short" but not extended to the final column. This is not at all in conformity with general practice

and in my opinion is bad. If the contingencies are grave enough to warrant special disclosure on the balance-sheet, they should be shown in the form of reserves, thus clearly affecting the net worth; if not, then the usual practice of a footnote is the better one. The average reader of the suggested form would be led to think the net worth is stated after allowing for the unextended contingencies, whereas a properly stated footnote would make it clear that the net worth figure is subject to the contingencies stated.

W. H. LAWTON.

AUDITORS' CERTIFICATES, by DAVID HIMMELBLAU. *The Ronald Press Company*, New York.

"The purpose of this volume is to bring together in convenient form the available material relating to auditors' certificates."

The above sentence is the opening phrase of the preface of *Auditors' Certificates*: but it is too modest by far, for in addition to ninety-two certificates taken from practice, it contains definitions, a clear, concise analysis of what auditors' certificates should be, and many quotations from well known authorities on the subject, such as Sir A. Lowes Dickinson, H. L. H. Hill, H. B. Fernald and extracts from THE JOURNAL OF ACCOUNTANCY and from reports of the special committees of the Institute and of the Robert Morris Associates.

In these days of high prices, it is unusual to find a technical book of merit which can be bought for \$2.50: it is remarkable that a book of such great value as is this one is sold for so small a sum. The fact becomes more noticeable as one reads the book and finds that the ninety-two certificates which form the skeleton, the framework, of the book, are originals actually used by a number of the leading accountants in many lands and must have cost the numerous clients many thousands of dollars, of pounds sterling, of francs, of marks, of yen and of rupees. Many of these certificates bear the names of the firms by which they were issued and some twenty-three such names appear.

I do not find the classic certificate which read

"We have examined the accounts of Jonadab Finch and find them to be correct.

Josiah Hastings His-X-mark
Abijah Elliott His-X-mark"

A certificate which, if historical, is, I believe, no longer typical.

The volume contains ten chapters, the first of which is introductory and aptly quotes at length from the report of the committee of the Robert Morris Associates, a body which, working with the special committee of the Institute, probably has accomplished more than any other agency to bring the accountant and the banker together and to teach them to speak a common tongue.

In chapter II thirty-five certificates used in annual audits are quoted with comments on such matters as qualifying statements, inventories, etc. Chapter III occupies two pages only. In it the author defines certificates and classifies them by their form. The next chapter gives Professor Himmelblau's opinions, comments and analyses relating to unqualified certificates, while the following one treats of qualified certificates in the same manner.

Book Reviews

Chapter VI describes English certificates and quotes at length from comments by Sir A. Lowes Dickinson and H. L. H. Hill. The next two chapters contain thirty certificates on statements prepared to show the effect of "financing" and appropriate quotations from the JOURNAL and from reports of the committees above mentioned, although the author gives his own analysis of the various forms of "financing" described in the certificates. Chapter IX on "faulty certificates" is one of the most valuable portions of the book. In it the author describes under eight heads various shortcomings in the examples quoted. The concluding chapter is a summary of the basic points—so good that I wish it could here be quoted. This is followed by a number of English and other foreign certificates and an index.

The foreign certificates have less practical interest for the American auditor, as the laws and customs of other lands differ sufficiently from ours to call for different treatment and different verbiage. The certificates taken from English practice illustrate clearly some of these differences. They show that the client has complied with the law in supplying to the auditor all the information he requested and they bring out clearly a point which might well be given heavier emphasis than it receives. The English certificates are usually brief. Their whole value lies in the broad statement that in the opinion of the auditor the facts are correctly stated. The preparation of statements may be, to some extent at least, mechanical—the product of a clerical worker, but the task of formulating and stating a correct, considered opinion is essentially a professional matter.

Professor Himmelblau is professor of accounting at Northwestern university and is also a consulting accountant—a combination which, it would seem, enables him to enjoy the somewhat unusual pleasure of practising what he preaches. Throughout the book there is a pleasant absence of both pedantry and egoism: it might be called a compendium or anthology of auditors' certificates, with comments by the editor. It gives the words used by many accountants, many being recognized leaders in the profession, and illumines them with the results of the author's dual experience. This is the only proper method of approach to the subject, for no one man can set a standard or fixed rule in these matters for the profession. He can show what has been done; he can give praise to the good points, blame to the bad ones and call attention to the omissions.

In the course of writing this review, the book has been read several times—to my pleasure and profit—and surprise is felt at the fact that no mention is made of two of the most important contributions which have been made to the literature on this subject. The first is that basic pamphlet *Approved Methods for the Preparation of Balance-sheet Statements* which has done so much to stabilize the balance-sheet audit and deals specifically with some of the essentials of certificates. The second is a recent contribution by Professor J. Hugh Jackson, entitled "Audit Certificates and Reports" which appeared last September in *The Accounting Review*, and, prior to *Auditors Certificates* formed perhaps the most comprehensive statement on the subject. It is comforting to find that each of these authorities is in agreement with Professor Himmelblau.

WALTER MUCKLOW.

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Compiled in the Library of the American Institute of Accountants

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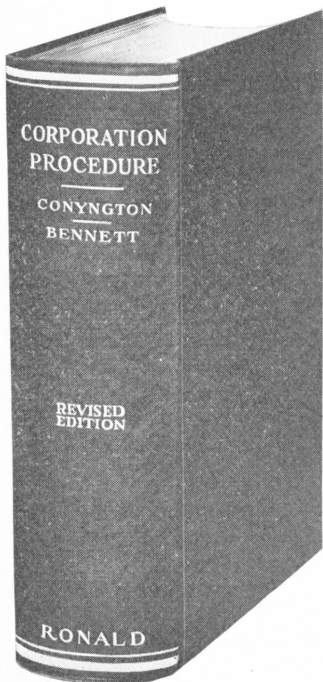
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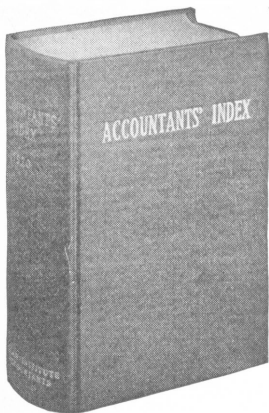
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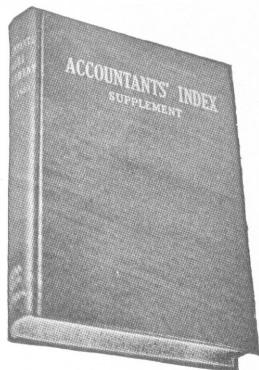
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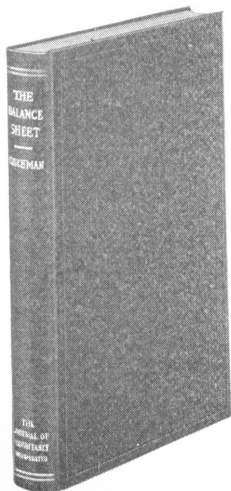
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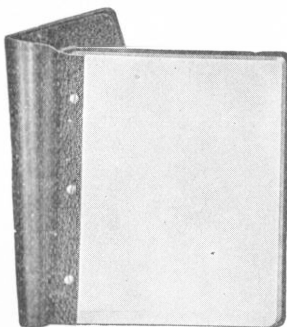
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